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For all the disappointments, history will judge Tony Blair more kindly than Britons do today: leader

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Politics this week

May 10th 2007
From The Economist print edition

As expected, Tony Blair announced his resignation as leader of **Britain's** Labour Party and thus as prime minister. He will step down on June 27th. The ruling Labour Party will now select a new leader, which will probably be Gordon Brown, the chancellor of the exchequer. See article

Getty Images

Nicolas Sarkozy won the presidential election in **France**. The centre-right front-runner defeated his Socialist opponent, Ségolène Royal, by 53-47%. His victory was followed by a few riots in central Paris and an expensive yachting holiday off Malta for the president-elect. See article

Russia's president, Vladimir Putin, chose Moscow's annual Victory Day parade to step up his criticism of America, indirectly comparing its foreign policy to that of the Third Reich. Condoleezza Rice, America's secretary of state, is due to visit Russia next week.

After many years of conflict, a new government took office in **Northern Ireland**, bringing together the Democratic Unionists' Ian Paisley as first Minister, with Sinn Fein's Martin McGuinness as his deputy. Britain's Mr Blair and Ireland's Bertie Ahern were on hand to take credit for peacefully solving the bitter Northern Irish dispute. See article

No way out

Leaders and ministers from more than 60 countries gathered at Sharm el-Sheikh, in Egypt, where they looked in vain for ways to end the mayhem in **Iraq**. Condoleezza Rice broke the ice by meeting Syria's foreign minister but a much-touted rendezvous between Ms Rice and Iran's foreign minister, Manouchehr Mottaki, failed to materialise.

Saudi Arabia tried to mediate between the governments of **Sudan** and **Chad**, each of which has been trying to undermine the other in the border area that includes the Sudanese region of Darfur. See article

A report from Amnesty International, a human-rights group, said that China and Russia are supplying arms to the Sudanese government for use in **Darfur** in defiance of a weapons ban by the United Nations. Both countries reject the accusation.

South Africa's official opposition party, the liberal and largely white-led Democratic Alliance, elected Helen Zille to replace Tony Leon as its leader. In the last general election in 2004 the party got just over 12% of the vote. See article

In **Zimbabwe**, the government decided to ration households to four hours of electricity a day in order, it said, to help farmers who need power to irrigate their crops.

Christian brotherhood

At the start of a six-day visit to Brazil, **Pope Benedict XVI** said that the rise of evangelical Protestantism was “our biggest worry” in Latin America and that the Catholic church had to become “more dynamic”.

Some 60 **Haitian migrants** were missing, believed drowned, after their crowded boat capsized near the Turks and Caicos islands. More than 70 were rescued.

In **Cuba**, one person was killed when two soldiers commandeered a bus and then tried to hijack a plane at Havana airport in order to fly to the United States. The soldiers were wounded.

A federal court in Texas threw out immigration fraud charges against **Luis Posada Carriles**, an elderly Cuban exile whom Cuba and Venezuela want to extradite to face charges over the 1976 bombing of a Cuban airliner in which 73 people were killed.

Nine policemen were killed in **Colombia** when a roadside bomb planted by leftist guerrillas destroyed their passing truck. Earlier, investigators exhumed 105 bodies, from an unmarked grave in the south of the country, of people they believed to have been killed between 1999 and 2001.

In **Canada**, André Boisclair resigned as leader of the separatist Parti Québécois, after leading it to a humiliating defeat in provincial elections in March. Gilles Duceppe, the leader of the federal Bloc Québécois, may be chosen to replace him.

Caught in the middle

AP

Officials in **Afghanistan's** southern Helmand province said that an air strike by NATO forces had killed at least 21 civilians, bringing the total number of civilian deaths from "friendly fire" in the country over the past two weeks to around 90. The American commander for east Afghanistan said he was "deeply, deeply ashamed" of an incident on March 4th involving American marines in which 19 civilians were killed. See article

Bangladesh's most popular politician, Sheikh Hasina Wajed, returned to Dhaka to a rock star's welcome after the collapse of attempts by the military-backed government to keep her out. See article

An international meeting in Chile placed most of the ocean floor of the **South Pacific**, which contains a large share of the world's pristine deep-sea environment, off-limits to an ecologically damaging form of fishing called bottom trawling.

Australia's pre-election budget gave away A$31.5 billion ($26 billion) in tax cuts, increased spending across the board—and still accumulated a A$10 billion fiscal surplus. The government is miles behind in the opinion polls. See article

In an attempt to revive flagging efforts to reform the country and fight corruption, **Indonesia's** president reshuffled his cabinet, sacking five ministers.

Primary status

Party strategists in America began rethinking their plans after **Florida** set January 29th as the date of its presidential primary election. Several states have already brought their primaries forward to February 5th in order to have more influence, but the national parties are concerned they are losing control of the timetable and are considering penalties for states that leapfrog the agenda.

As **Congress** readied a vote on a revised military-spending bill for Iraq the **White House** warned it would veto any legislation that provided only short-term funding. Meanwhile, a group of moderate Republican congressmen met George Bush to tell him he could not count on their support for the war for ever.

AP

A wildfire scorched more than 600 acres of Griffith Park in **Los Angeles**. The park is situated between Hollywood and the San Fernando Valley and holds several city attractions, including the Griffith Observatory and Los Angeles Zoo.

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Business this week

May 10th 2007
From The Economist print edition

Alcoa, which is based in Pittsburgh, announced a $27 billion hostile bid for **Alcan**, its Canadian rival. The pair had been exploring the potential of reuniting (they were split in the 1920s over antitrust concerns) to become the world's biggest aluminium producer. Alcoa faces several hurdles in its endeavour, not least from political opposition to a deal in Quebec, where Alcan has its headquarters.

Alcoa's bid spurred rumours about more consolidation in the mining industry (including the possibility of Alcoa itself becoming the target of a takeover). **Rio Tinto's** share price soared amid speculation, which it denied, that it had received a takeover offer from **BHPBilliton**. See article

News on the wires

The boards of **Reuters** and **Thomson** confirmed they were negotiating a merger to create the world's largest provider of financial data. The proposed deal would see Toronto-based Thomson taking over Reuters, which began in 1851 by transmitting stockmarket data between London and Paris, for £8.8 billion ($17.5 billion), but the companies need to sell the merits of their plan to shareholders, especially the trustees that uphold Reuters' independence. See article

BAESystems, Europe's biggest defence contractor and an important supplier to the Pentagon, made its largest acquisition since it sold its stake in Airbus last year by agreeing to pay $4.1 billion for **Armor Holdings**, which makes, among other things, armaments for Humvees.

An appeals court dismissed part of a suit brought by New York state to force **Richard Grasso** to return some of the $190m compensation package he received as chairman of the New York Stock Exchange. Mr Grasso left the job in 2003 amid an outcry about his pay and was sued in 2004 by New York's then attorney-general (now governor), Eliot Spitzer. The appeals court decided the attorney-general lacked the authority to bring the case.

ABN AMRO's chief financial officer said he would resign amid legal wrangles that continued to complicate **Barclays** offer to take over the Dutch bank. Shareholders look increasingly likely to be pivotal in deciding the fate of ABN, which is also the target of a (higher) bid from a consortium of banks led by **Royal Bank of Scotland**.

A private-equity consortium conceded defeat in its attempt to buy **Qantas Airways**. Led by Australia's **Macquarie Bank**, it missed a deadline to gain the support of 50% of shareholders (though it later claimed that it had collected just enough votes). The Australian airline's directors, who backed the A$11.1 billion ($9.2 billion) bid last year, were criticised for not doing enough to get investors on board. See article

Altadis, a Franco-Spanish tobacco company which includes Gauloises cigarettes among its brands, said it had been approached about a buy-out, valued at *euro*12.8 billion ($17.4 billion). The offer, from two **private-equity** firms, tops a takeover bid from Britain's Imperial Tobacco, the world's fourth-largest tobacco group and the maker of Rizla cigarette-rolling paper.

The Sage of Omaha

A controversial motion to divest a 1.3% stake in **PetroChina** was defeated by 98% of **Berkshire Hathaway's** shareholders. Warren Buffett's investment company is the biggest foreign investor in PetroChina, but the motion claimed the oil firm's interests in Sudan were indirectly aiding the killings in Darfur. Mr Buffett said he could not envisage his company having any effect on “trying to tell the Chinese government how to conduct their business”. See article

Motorola's shareholders denied **Carl Icahn** a seat on the company's board of directors. The activist

investor had waged a prolific campaign against the telecom-equipment maker's chief executive, Ed Zander, over the company's recent performance.

More **green business initiatives** were unveiled. **General Motors** became the first carmaker to join the United States Climate Action Partnership, a business group pressing the government to reduce emissions; **News Corporation** said it would be “carbon neutral” by 2010; and **Citigroup** committed $50 billion over the next decade to climate-change projects. Congress is expected this summer to produce legislation that compels a reduction in America's emissions.

Hear the dragon roar

China's stockmarkets continued their bull run despite the government's attempt to dampen them down. Soon after the governor of the central bank voiced his concern that a bubble may be forming, the Shanghai index broke the 4,000 mark for the first time. The value of shares traded on Chinese stockmarkets is now reckoned to be higher than the rest of Asia combined.

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KAL's cartoon

May 10th 2007
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Kevin Kallaugher

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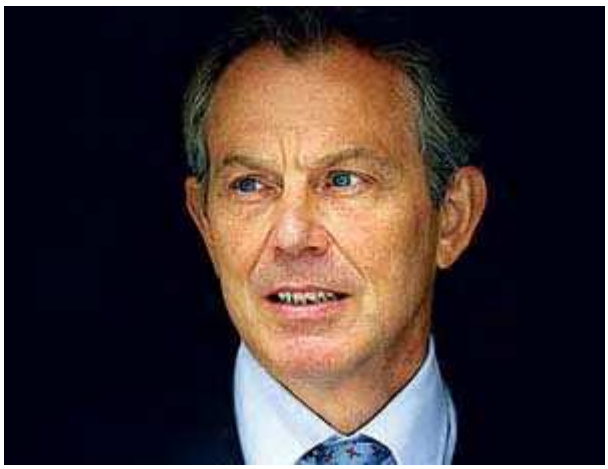
Tony Blair

How will history judge him?

May 10th 2007
From The Economist print edition

For all the disappointments, posterity will look more kindly on Tony Blair than Britons do today

Reuters



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FEW Britons, it seems, will shed a tear when Tony Blair leaves the stage on June 27th after a decade as prime minister, as he finally announced this week he would do. Opinion polls have long suggested that he is unpopular. On May 3rd local and regional elections gave voters a last chance to give Mr Blair a good kicking. They took it with both feet, handing power to Conservatives, Scottish Nationalists, Welsh nationalists, anybody but distrusted Labour. Most wish he had gone last year—an opinion shared by his likely heir, Gordon Brown, who now faces a mighty struggle against David Cameron's Tories.

Either Britons are an ungrateful lot, or Mr Blair deserves his shabby send-off for having delivered too little and disappointed too much. The truth, as usual, is more complicated.

You used to love me...

On most measures, Mr Blair has left Britain a better place than it was in 1997 (see article). Uninterrupted economic growth has made the average Briton substantially better off, even if the tax burden has risen. There are fewer tatty schools and run-down hospitals. Although many exams lack rigour, more children are getting respectable grades and going on to universities. Thanks to the minimum wage and tax credits for poor working families, the forces relentlessly pushing up income inequality under Margaret Thatcher have been blunted.

These things are measurable; less easy to prove, but just as valuable, are the ways in which Mr Blair has helped make Britain a more tolerant, more cosmopolitan place. There is a human-rights act now; civil partnerships for homosexuals are recognised. Self-government for Scotland, Wales and now even Northern Ireland has extended democracy: peace in Ulster must rank among Mr Blair's greatest successes (see article). Class matters less: the fact that the Tories are gaining popularity led by an Old Etonian is, strangely, a sign of progress.

Under Mr Blair, fusty old Britain has become an international exemplar of openness. Large-scale immigration, especially from the former communist countries of eastern Europe, has boosted the economy without triggering a serious backlash of resentment. Embracing globalisation, London has become one of the most dynamic cities in the world. Mr Blair has changed the debate in Europe (Nicolas

Sarkozy is another right-winger in his debt—see article) and he has also done more than any other Western leader to force people to pay attention to climate change and poverty in Africa.

You can go through this list, adding asterisks and footnotes: on the economy, not enough credit goes to the Tories who came before Mr Blair; on immigration, for every happy Czech waitress in Covent Garden there are several angry Muslims in Leeds; on civil liberties, he helped gays but not prisoners or young louts. Still, Mr Blair has improved Britain, on balance, and he has usually stood on the side of liberal progress. This newspaper, for one, has no regrets in having supported him.

Why then does Mr Blair leave a sour taste in Britain—and not only in the mouths of the old socialist left and the xenophobic right? For millions of people, only one word is necessary: Iraq. But the disappointments go further back than that.

This, after all, was the most gifted politician of his generation—certainly in Europe and (depending on your opinion of the foxier but less disciplined Bill Clinton) perhaps wider than that. Before coming to power Mr Blair already had one enormous achievement to his name: dragging the Labour Party to the electable centre. In 1997 he had not just a big parliamentary majority but a country that wanted what he wanted—an economy that combined the hard-won gains of Thatcherism with a greater emphasis on social justice and modernised public services. How could he fail?

By being astonishingly ill-prepared. In retrospect, it is hard to exaggerate the waste of Mr Blair's first term. Under the visionary rhetoric, the new government had little notion of how to improve public services, other than by dismantling its predecessor's successful attempts to raise their quality by injecting more competition. With one or two exceptions (among them primary schools), more harm than good was done to health and education. Unable to show solid progress, Mr Blair fell back on the techniques of opposition, spinning the news to convey an impression of activity and progress. His popularity continued to defy gravity, but authority was squandered, and public cynicism grew.

In his second term Mr Blair did eventually work out a model for public sector reform—one that involved refining the internal-market policies pioneered by the Tories, but with far more money from the state. But by then September 11th and soon Iraq were upon him. From the invasion in 2003, with his party squabbling and Mr Brown all too often sniping from the sidelines, public-service reform lost momentum. To his credit, Mr Blair tried to push ahead, risking his job over variable university tuition fees, for instance. But the fact is that, although services have got better, they are still worse than they should be; and a lot of cash has been thrown away. Britons will rue those wasted years as much as Mr Blair now does.

The Baghdad blues

By contrast, on Iraq, the source of so much misfortune, history may be a little kinder to Mr Blair than his countrymen currently are. Nobody denies the manifest disaster of the past four years. It would be convenient for supporters of the war, such as this newspaper, to claim we were tricked into it by Mr Blair; convenient, but unfair. He did indeed put more weight on the scanty intelligence evidence that Saddam Hussein possessed weapons of mass destruction than it could bear. But there is little doubt that he (and many others) believed in it at the time. Nor was it a bad thing to want to rid the world of a brutal tyrant. After all, Mr Blair had built the American-led coalition that ended the genocidal career of Slobodan Milosevic; and the invasion of Afghanistan had at first been a success.

As for the catastrophic mismanagement thereafter, Mr Blair should have insisted on far more in terms of post-war planning. And, yes, a bolder friend of America might have publicly pushed for Donald Rumsfeld to have been removed, for the nightmarish Guantánamo Bay to be closed, for George Bush to have tried harder to create a Palestinian state. But the greater fault lies with Mr Bush for refusing to listen to somebody who plainly knew more about the Arab world and indeed terrorism than he did. Given that obstinacy, Mr Blair had two real choices: to leave Iraq and America to a still-worse fate; or to stay in, hoping to repair some of the damage Britain had helped cause. On balance he did the right thing.

Perhaps the greatest tribute to Mr Blair is that neither Mr Brown nor Mr Cameron wishes to change fundamentally the course he has set. Both will stay in Iraq, for a while, and Afghanistan. Despite his initial scepticism, Mr Brown is unlikely to unpick Mr Blair's public-service reforms. Mr Cameron's popularity is based on occupying the Blairite centre ground.

If Margaret Thatcher, in much more testing times, gave the country what it needed, Mr Blair can at least

claim to have given it much of what it wanted. It is unlikely that he will ever be thought of as the great prime minister he could have been. It is almost certain, however, that Mr Blair will come to be seen as a better one than he is today.

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France's presidential election

Sarkozy's moment

May 10th 2007
From The Economist print edition

And, mercifully, a fresh start for France

AFP

Get article background

A GRIPPING French presidential election has ended in a resounding victory for the better candidate. After a huge turnout in the second round on May 6th, the centre-right's Nicolas Sarkozy defeated the Socialists' Ségolène Royal by 53-47%, the biggest winning margin for the right in a straight right-left contest for over 40 years. Mr Sarkozy made some unwise promises during his campaign, with populist talk of an interventionist industrial policy and of new protectionism. But his central message could not be clearer: France needs profound change if its economy is to revive (see article). His solid majority gives Mr Sarkozy a strong mandate for reform, even if some of the hurdles ahead are daunting.

Mr Sarkozy should surmount the first by securing a big majority for his UMP party in the parliamentary election next month. After that, he and his likely prime minister, François Fillon, will want to move fast, starting with measures to liberalise the labour market. But it is not passing laws that will be the measure of Mr Sarkozy's mettle; it is facing down the streets, where protesters have demolished so many previous efforts at reform. Mr Sarkozy knows this better than most. Jacques Chirac, his predecessor, one-time mentor and founder of the UMP, in whose government Mr Sarkozy served for five years, faced street protests in 1995, his first year in office—and backed down. The same thing happened again last spring.

This biggest test of his presidency is one Mr Sarkozy needs to face up to early. Paradoxically, that is in part because Europe's economies are now doing well, with growth rising and unemployment falling. That helps create a more benign climate in which to make painful reforms, but it also shows up starkly how badly France is doing compared with Britain and Germany. The big vote for Mr Sarkozy partly reflects a burning desire to make up lost ground after years of underperformance. The firmer he is in taking on unions, insiders, pensioners and others with a stake in today's over-protected system, the greater will be the eventual economic rewards.

For the same sorts of reasons, Mr Sarkozy would be wise to drop his anti-European rhetoric: during the campaign he attacked the independent European Central Bank for its tight monetary policy and painted the European Union as a “Trojan horse” with a pro-globalisation agenda. As inheritor of the Gaullist tradition, he may be tempted to fight Brussels on this turf. But his partners are unlikely to agree to change any of the EU's rules. And France's economic problems are anyway largely home-grown, and need home-grown cures.

In this and other ways Europe will provide a second big test for France's new president. Two years of

paralysis have passed since French and Dutch voters rejected the proposed EU constitution in mid-2005. The EU cannot progress without active French participation. Mr Sarkozy has set out his stall for a slimmed-down constitutional treaty that can be ratified without new referendums. This might just work, but the odds against remain high: striking a deal that satisfies the British (soon to acquire a new leader in Gordon Brown), the Poles, the Czechs and others will be hard. It would be better for the EU's leaders, France's included, to give up internal quarrels over unnecessary institutional change and instead rebuild Europe's place in the world—starting with its volatile neighbourhood.

No Turks in Club Med?

Here Mr Sarkozy has some good ideas and one very bad one. On the plus side, he is keen to foster a “Mediterranean community” that would strengthen the EU's commercial and political ties with north Africa and the Middle East, and he is inclined to be tougher than Mr Chirac towards Vladimir Putin's increasingly obstreperous Russia. But he insists that Turkey can never join the EU. Having made so much of this during the campaign, he is not likely to change his mind, especially given Turkey's current political turmoil. But the matter need not be settled for at least another decade. Mr Sarkozy would need the unanimous agreement of all EU countries to suspend its accession talks. So the most sensible course, after Turkey's forthcoming election, would be to let the negotiations continue, and see how much progress Turkey makes.

For the most part, when it comes to foreign policy, both Mr Sarkozy's arrival and Mr Chirac's departure are thoroughly welcome. Bitter past quarrels over the Iraq war can now be consigned to history. It helps that Mr Sarkozy is by instinct more pro-American (and pro-Israel) than most of the French political elite. He has been commendably tough on Iran's nuclear ambitions. His ambivalence over France's troop commitment in Afghanistan is worrying. But in general he promises to be a more congenial president than Mr Chirac for the Americans, British and Germans to deal with. His election offers every hope of a fresh start for France, and for Europe.

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Corporate mergers

A bid too far

May 10th 2007
From The Economist print edition

How to spot the top of the takeover boom

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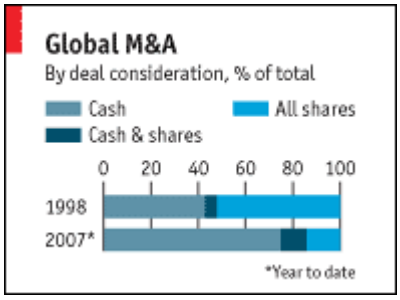

JUST as generals always plan to fight the last war, investors usually expect the last cycle to repeat itself. As merger mania reaches new heights ($2 trillion-worth of deals has already been announced this year), everyone is looking for the deal that will signal the top of the market. The example they fear is the AOL-Time Warner merger of 2000, when the world was asked to believe that consumers would clamour to receive their e-mails from the same company that supplied their magazines.

So the recent spate of bids, or rumoured bids, for media and telecoms companies is causing particular nervousness (see article). Will a Microsoft-Yahoo! merger prove to be a deal too far? Or will it be Rupert Murdoch's pursuit of Dow Jones?

Investors are looking at the wrong cycle. The AOL-Time Warner deal was marked by the belief that value could be created by merging firms in old and new media—different industries that were colliding. This time round, most deals (such as Alcoa's bid for Alcan, a fellow aluminium producer) involve rivals in the same line of work. And the late 1990s boom was dominated by bids in which one company used its high-priced shares to buy another. Shareholders in today's target companies are largely being offered cash.

Which is why a better place to look is the merger boom of the 1980s. Then, as now, many deals were leveraged buy-outs (LBOs)—bids financed by private-equity groups such as Blackstone, using a large amount of borrowed money. The best-remembered battle was the takeover of RJR Nabisco, immortalised in the book “Barbarians At The Gate”, but the top of the market was marked by the failed bid for UAL, the parent company of United Airlines, in October 1989. The UAL breakdown, which was caused by bankers saying no, signalled that the sums behind LBOs no longer added up. A combination of high interest rates and the early 1990s recession meant that several of that era's LBOs went bust. Returns from the RJR deal proved extremely disappointing.

Stockmarkets are today buoyed by a belief that LBO-bidders will swoop if share prices fall. It is known in the markets as the “private-equity put”, an echo of the “Greenspan put” in the late 1990s, when investors believed the Federal Reserve would always step in to save markets by cutting interest rates. The Dow Jones Industrial Average rose in 24 of the 27 trading days ending May 7th, the best such run since 1927.

The real threat to today's takeover boom would be the collapse of a multi-billion dollar deal. Such a failure would signal that investors were becoming nervous about lending money to finance LBOs. That would restrict the firepower of private-equity predators. And without the prospect of bids, speculative interest in many stocks would diminish. That, in turn, would sour investor sentiment, making deals even less likely.

The shadow of debt

As yet, no such collapse has occurred. The proposed takeover of Qantas, an Australian airline, is in trouble, but its problems seem to be chiefly political. Still, the clock is ticking. The record amounts of money raised by private-equity groups mean that competition for bid targets is pushing up prices. Standard & Poor's says that yields on LBO loans are rising, and investor demand is falling. Meanwhile, monetary policy is tightening in Europe; and in Asia, the source of so much global liquidity in recent years, the Chinese government is now trying to rein in speculative activity.

The tipping point may still be months or even years away. But when it comes, the end of the merger boom is likely to be heralded not by a media merger, but by a private-equity firm ringing its financiers and hearing: “No, not this time.”

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European industrial policy

Lost in space

May 10th 2007
From The Economist print edition

Late, over budget and unneeded, the Galileo satellite-navigation scheme ought to be scrapped

AP

IT IS a political creation founded on national vanities rather than commercial logic. Its multi-country structure results in internal discord and its activities have suffered from delays and a lack of leadership. Does this sound like the EADS consortium, the troubled Franco-German group behind Airbus? It is worse: Europe's eight-company, five-nation satellite-navigation consortium, Galileo. Think of it as EADS in space.

Galileo was concocted as a public-private partnership by the European Union in 2002 to construct a rival to the Global Positioning System (GPS), which was built by America's armed forces in the 1980s and is now available for free use worldwide. GPS is used in everything from aviation to agriculture. Sales of GPS equipment already surpass $20 billion a year, and over 95% of the units sold are for civilian use.

Five years on, Galileo is floundering. Germany's transport minister said this week that it was “in a profound and serious crisis”. It has yet to name a chief executive, choose a headquarters or agree on how to share costs and profits (should any ever appear). The 30 satellites are years behind schedule—just one test satellite has been launched. Galileo was supposed to be operational by 2010, but the official estimate is now 2012, and analysts say it will not be ready until at least 2014.

The project is also over budget. The original cost was put at around €3.6 billion ($3.4 billion), with taxpayers footing one-third of the bill and the rest coming from companies in the consortium: EADS, along with Thales and Alcatel-Lucent of France, Italy's Finmeccanica, AENA and Hispasat of Spain, Britain's Inmarsat and a German group that includes Deutsche Telekom. But they recently turned to the EU for more funds. An additional €2 billion is now needed.

The EU has three options: to set new deadlines for the consortium and pour in more money; to make it a fully public-sector initiative and foot the bill; or to shut it down. Transport ministers from the EU's 27 member countries will meet next month to consider Galileo's fate. The EU is thought to favour keeping the project alive and will present its proposals next week. But the best option would be to kill it.

Galileo was originally proposed as a commercial alternative to America's GPS. It would be more accurate, providing positional fixes to within one metre rather than three or so. Galileo would offer a free GPS-like service, but would charge for higher accuracy and other special features, thus recouping its costs and paying its backers a profit. Yet other less commercial motivations were at play. Policy wonks wanted a European system, arguing that America could cut off GPS signals on a whim. And it was seen as a step towards a broader European space initiative to create jobs and boost growth.

Eppur si muove

But the Earth has not stood still since 2002 and most of Galileo's supposed benefits have now vanished. America has upgraded the GPS system so that it is already as accurate as Galileo was supposed to be. Russia and China have moved forward with their own systems, offering increasingly capable alternatives to GPS. And what started out as a commercial venture is turning into just another way for European industrial giants to extract government funding. The only reasons to continue with the project are political vanity, industrial policy or paranoid national-security fears. As in the Vatican in 1633, the EU's view of the world is at odds with reality.

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Venezuela, the World Bank and the IMF

Wolf v Wolf

May 10th 2007
From The Economist print edition

It would ill behove other Latin Americans to join Hugo Chávez's latest scheme

Reuters

Get article background

SINCE winning another six-year term as Venezuela's president last December, Hugo Chávez has pushed his country swiftly towards “21st century socialism”. As well as plenty of old-fashioned state control (private banks and a steel firm are the latest threatened with nationalisation), this seems to involve Venezuela turning its back on the world. Mr Chávez says that he will leave the International Monetary Fund, the World Bank and perhaps the Organisation of American States. All, he claims, are under the thumb of “the empire”, as he calls the United States. Instead, he is proposing a new body: the Bank of the South (see article). This would make loans to Latin American governments without “neoliberal” strings.

If it does leave the IMF and the World Bank, Venezuela will join a very select club. The only countries that are not members are Cuba and North Korea. Note that the list does not include China, to which Mr Chávez is keen to sell his oil, or his new-found ally, Iran. Since Venezuela is awash with oil money, for now it has no need for either the IMF or the World Bank. Worryingly, Mr Chávez may persuade much poorer countries in Latin America—such as Bolivia, Ecuador and Nicaragua, all governed by his allies—to follow suit.

This might sound an empty threat; but in many parts of the developing world there is resentment against “the Washington consensus”. African countries leap at Chinese aid because it ostensibly comes with fewer strings attached than the World Bank's money. The IMF is hardly the most-loved institution in Latin America: one of Mr Chávez's bigger allies, Argentina, blames the fund for its economic collapse of 2001-02 (mostly wrongly). And the proposed Bank of the South has been given spurious plausibility by the American administration's misplaced determination to keep the World Bank's unpopular president, Paul Wolfowitz, in his job.

Whether or not the new bank takes off depends on Brazil. Its government was until recently happy to entertain many of Mr Chávez's schemes. That was partly because Brazilian officials believed that the best way to moderate the Venezuelan populist was to be chummy with him. It was always hard to detect any signs of this working. Recently Brazil seems to have recognised this. Without Brazil, the Bank of the South would merely be a Venezuelan aid outfit, its spending dictated by political criteria and thus mostly wasted. If Brazil does take part, it might turn the new bank into a kind of Ex-Im Bank for Brazilian business—not quite what Mr Chávez had in mind.

Why still a World Bank borrower be

But then the real question facing development bankers is not the one he has in mind either. It is whether Latin America—or indeed Asia (see article)—ought still to have any use for the IMF and the World Bank or its regional equivalents. Many countries in both regions can now raise money cheaply in capital markets. The answer is a qualified yes—and not just because the markets want borrowers to be IMF members. Poorer countries in both regions still rely on aid. In the richer ones, the development banks still have a big role in long-term financing for infrastructure. Although governments can and do tap the markets for some of that money, they are wise to diversify their borrowing. In Latin America in particular, new-found financial stability has yet to be tested by a global market funk.

Above all, the conditions attached by multilateral lenders provide reasonable reassurance that money will not be wasted. Of course, the IMF and the World Bank have sometimes made mistakes. Both could usefully be reformed to recognise the changing balance of power in the world economy. And, yes, competition could be healthy. But to paraphrase Karl Marx, the point is to change the world not to leave it—as Mr Chávez seems intent on doing.

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On Boris Yeltsin, the Royal Navy, ABN AMRO, tigers, tuberculosis

May 10th 2007
From The Economist print edition

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Before Yeltsin

SIR – Your remark that Boris Yeltsin inherited a "brainwashed people" when he became president of Russia seriously distorts the historical record (Obituary, April 28th). Mr Yeltsin could not have emerged as a democratic politician without Mikhail Gorbachev's reform process. It was he who organised contested elections in the spring of 1989 that saw the voters sweep away the Communist Party leadership of Moscow, Leningrad and Kiev and oust party bosses all over the country, and which brought Mr Yeltsin to centre stage. Nothing like that had yet happened in any of the other countries of the Warsaw Pact.

Mr Gorbachev allowed free debate in an increasingly unfettered liberal press. When the media turned against him and towards Mr Yeltsin in the last years of his rule he tried to spin the news (who doesn't?), but he never tried to limit the freedoms he had granted. Pressure from tens of thousands of demonstrators ended the Communists' constitutional monopoly of power in 1990. Without their support Mr Yeltsin could not have prevailed against the conservative plotters in August 1991. These were not the actions of a brainwashed people.

Mr Gorbachev combined great political courage with serious misjudgments. So did Mr Yeltsin, who left his people yearning for Vladimir Putin's precarious stability. It will take many decades, and many fits and starts, before the transition which Russia began under Mr Gorbachev comes to fruition.

Rodric Braithwaite
British ambassador to Russia, 1988-92
London

Fortifying the navy

SIR – We are pleased that *The Economist* endorsed the idea of a class of smaller ships for the Royal Navy ("Sunset seas", April 21st). Our article in the journal of the Royal United Services Institute, to which you referred, proposed a fleet with 30 Future Surface Combatant (FSC) vessels and six Type-45 destroyers to pull the navy back from the brink of losing its global capability, compared with the 32 destroyers and frigates demanded by the British government's Strategic Defence Review (which was the product of an era of lower threats than we face today).

We believe that our views on what the FSC should look like are congruent, but what we described are not "futuristic new frigates". The corvette, a type of ship that uses strategic clarity and creative technology to achieve relevant effect at less expense, would cost up to £250m ($500m) for the basic model, which is a lot cheaper than the £800m generally touted for the T-45. This is not wishful thinking. The Indian navy has an aircraft carrier and 30 other ships under construction. The Chinese, Australians, Japanese and French are also all building.

What is wishful thinking is to believe that a desire for peace means not preparing for war. Admirals Nelson, Fisher and Cunningham knew that as well as any Roman. But our present leadership seems to have forgotten history, if it ever knew it. The crisis of the navy is only a part of the general dysfunctionality of the present-day Ministry of Defence that must now be tackled root and branch, before, *absit omen*, more serious military defeat forces it upon the country. The urgent rebuilding and reshaping of the navy is an essential part of this and the FSC programme is axiomatic to that.

Vice-Admiral Sir Jeremy Blackham
Professor Gwyn Prins
London School of Economics

London

Sizing up the banks

SIR – The idea that bids from a hedge fund with only 1% of the shares and an opportunistic consortium of competitors can create a more efficient financial institution seems shortsighted and rather unfair in the case of Dutch bank ABN AMRO ("Braveheart", April 28th). Actually, it could be argued that such actions destroy carefully created value for the benefit of the few. ABN's share value may have underperformed for years, but it is one of the few banks that have been successful in expanding overseas without political protection. That this happened in relatively eccentric markets with apparent little mutual synergy is mostly because of the entry barriers to larger markets like Germany and France.

ABN has been a solid profitable bank for years and its recent decision to enter into Italian markets is admirable and something from which its shareholders will surely benefit in coming years. What's next in your drive towards more "efficient" markets? Barclays teaming up with Citigroup to acquire Royal Bank of Scotland? A consortium of Exxon Mobil, Shell and Gazprom breaking up BP? Karl Marx may have been right after all when he said that capitalism destroys itself through the predatory forces of competition, eventually leaving a single survivor in each market.

Jan-Willem Kruisinga
Bloemendaal, the Netherlands

Animal trade

SIR – Your article on tigers outlined the cost to their conservation of refusing to countenance markets ("Market failure", April 21st). I have argued that the only way to save the tiger is to sell it, but conservationists have maintained that commerce and conservation are antithetical. Their principal strategy has been to prohibit tiger hunting and the trading of tiger parts. Policing has thereby become the cornerstone of conservation polices and, predictably, it has failed to stave the decline of tigers in the wild.

Some of the poorest people in the world live in close proximity to valuable resources like tigers, yet they have no incentive to conserve and manage the resources sustainably, allowing criminals and smugglers to profit from poaching. This is bad for the people and very bad for tigers. In contrast, 2m crocodiles are harvested each year from facilities as far apart as Australia, South Africa and the United States. The international availability of farmed crocodiles has virtually eliminated crocodile poaching. Clearly, when trade is outlawed, only outlaws trade and the only market failure here is the failure to let markets operate.

Barun Mitra
Liberty Institute
Delhi

Chronically happy

SIR – Well, nothing is really new. Your article on the unexpected improvement to patients' emotional health after they were injected with a bacterium recalls a similar effect that has been long identified in people suffering from tuberculosis ("Bad is good", April 7th). Known as *Spes phthisica*, or the euphoria of the tuberculous consumptive, this partly explains the disease's impact on a long list of aesthetes, including George Orwell, D.H. Lawrence, Franz Kafka, and Amedeo Modigliani. Frédéric Chopin complained that he could not compose unless he was coughing blood. John Keats, "With anguish moist and fever dew", poured out his ineffable poetry as the disease accelerated.

An interesting aside to this is the aphrodisiac effect of tuberculosis, so familiar to staff working in sanatoriums. As a nursing sister in my hospital once said, "You need a blowtorch to separate them."

Dr Dermot Kennedy
Glasgow

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Tony Blair

The great performer leaves the stage

May 10th 2007
From The Economist print edition

AFP

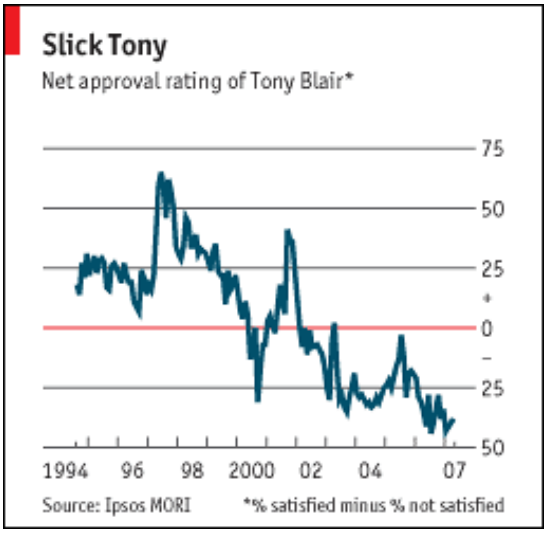
What Britain's long-serving prime minister did, and why he did it

Get article background

IT IS hard to be really disappointed by something unless it is unusually good, or at least promises to be so. Tony Blair, who announced on May 10th the date on which he was stepping down as Britain's prime minister, is an exceptionally gifted politician, perhaps the most natural persuader to have occupied the country's highest office since universal suffrage was introduced in 1928. His tumbling approval ratings, which have travelled from plus 65 to minus 40 in the ten years he has been in power (see chart), reflect a scale of disenchantment that afflicts only those who were once truly smitten. And yet, as his popularity has shrunk, Mr Blair's own belief that he is doing “the right thing” has grown ever stronger.

Mr Blair exudes a sense of purpose, but one that does not seem anchored to anything in particular. It is hard to guess why he decided to swap a career as a lawyer for one in politics, or what his early political credo was, beyond a vague desire to make a difference and a sharper one to turn the Labour Party into a winner. As prime minister he has been neither socialist, nor liberal, nor conservative, but has mixed all three together and somehow made the mixture stable.

He came to power in 1997 as a hugely popular leader who offered an end to tough choices in politics: Britain could keep its lowish-tax economy but have excellent tax-funded public services too. More than that, it could feel good about itself, an emotion that 18 years of Conservative government, caricatured as sleazy and heartless, had taken away.



His government set itself a whole raft of well-meaning targets for everything from eliminating child poverty to reducing carbon-dioxide emissions and increasing literacy and numeracy. Measured against these, he has made some progress, but not as much as he said he would. Schools and hospitals have got better, but have not been transformed in a way that ten years of big parliamentary majorities coupled with buoyant revenues should have made possible. How did Mr Blair manage to make so little of so much?

Early on, his success seemed effortless. When he became Labour leader in 1994, Mr Blair inherited a party that had rid itself of some embarrassing socialist tics but

was still demoralised by four consecutive defeats. He picked a fight over a clause in Labour's constitution that said it aspired to nationalise all economic activity. Few in the party really meant it, but it was a symbolic tie to Labour's founders. Mr Blair, who has little feeling for the past, ditched it. He then went further, aligning his party with free trade, markets and consumers.

As a reward, he was accused of being a Tory in disguise. That was wrong. Mr Blair is part of a middle-class, urban, baby-booming Britain which harbours hostility to a privileged Tory establishment that looks down on it, sometimes from the back of a horse. Even so, the accusation did not do him any harm with the electorate. It may even have helped. And his boldness had transformed his party.

New Labour, not-so-new Britain

Mr Blair arrived in Downing Street in May 1997, the youngest prime minister since 1812. But having won power, his government did not know what it wanted to do with it. The years in opposition had been spent thinking about how to change a party rather than how to govern a country. And besides, Britain was hardly sickly. The economy was booming, unemployment falling. In the interval between the fall of the Berlin Wall and September 11th 2001, the West had no life-threatening enemy for a British prime minister to lie awake worrying about. “Mine is the first generation able to contemplate the possibility that we may live our entire lives without going to war or sending our children to war,” Mr Blair said in Paris that year.

One thing he did know he wanted to do was to win another election, banishing for good Labour's reputation for incompetence in government. From the beginning of the first term, he concentrated on that. Scotland and Wales acquired legislatures that could spend money but not raise much. Hereditary peers were removed from the House of Lords, though without a lot of thought as to what might replace them. Above all, Mr Blair pressed for, and got, a deal in Northern Ireland that led, just this week, to proper power-sharing between Catholics and Protestants. With luck, one of Europe's bitterest battles has been ended at his instigation.

Labour's pact with the electorate involved sticking to Conservative spending plans for the first two years in government, so there were few other changes for voters to notice or for Mr Blair to trumpet. His team tried to make up for this by announcing bold new initiatives almost every day, often re-announcing them a few months later. Along the way it acquired a reputation for creative news management, a habit learned in opposition that would hurt Mr Blair later on. He also picked up other vices, such as preferring “sofa-style” and one-to-one meetings to policy discussions with the cabinet of senior ministers that forms the core of British government. And it became clear that Gordon Brown, his chancellor, would at times be obstructive. Mr Blair's chief of staff described his boss's style as Napoleonic. But Napoleon never had a strong neighbour in the Tuileries trying to undermine him.

If the first term was largely wasted as far as reshaping schools and hospitals went, a distinctive Blairite foreign policy nonetheless emerged. In Kosovo and Sierra Leone British forces intervened, preventing many civilian deaths and helping to topple unpleasant regimes. In a speech in Chicago in 1999 Mr Blair outlined his new thinking, revealing a typical reluctance to be captured by the past. Once upon a time, he said, America and its allies had either to sit back and let bad governments do bad things, or risk destabilising states by interfering in their affairs. Now rolling news channels had made it harder to look away, and borders were so easy to cross that foreign problems quickly became domestic ones. Bad people could be deposed and the world made safer at the same time.

AP

Such philosophising played little part in the second election victory in June 2001, against lacklustre opposition. Mr Blair now had two big tasks to match another big mandate. Having got rid of the fledgling market-oriented reforms in health care and education introduced by the previous Tory government, he went back to something similar, refining the earlier approach and pouring in money. By introducing competition and choice, he would improve public services and shore up support for them among middle-class taxpayers who might otherwise opt out. At the same time, he would settle Britain's tetchy relations with the European Union by joining the euro. At the height of his power, he looked capable of doing both.

The ride of the neophiles

Yo, Bush

A few months later, two planes were flown into the World Trade Centre in New York. As when Princess Diana died in 1997, Mr Blair found the right words, mixing grief and sympathy for America with toughness on terror, in those hours when George Bush seemed to have gone missing. He had a prescription, too. All democracies must join together to fight terrorism, he said on September 11th, adding that Britain, like America, would “not rest until this evil is driven from our world”.

Mr Blair joined America to invade Afghanistan. Again a bad regime was toppled, and a process started that was designed to lead to democracy. Those who suggested that, on past experience, Afghanistan was tough ground for invaders seemed to have been proved wrong. Mr Blair had driven out evil, and done good, again.

At this point in his premiership, he had not experienced failure. The looming prospect of war with Iraq at last presented him with a political challenge commensurate with his talent and sense of purpose. It was not a new problem, though. Mr Blair had discussed what to do about Saddam Hussein's flouting of UN sanctions and expulsion of weapons inspectors with Mr Bush long before the September 11th attacks. In 1998 Mr Blair and Bill Clinton had ordered bombing raids aimed at wiping out Iraqi weapons programmes. And so in February 2003, when UN inspectors gave their last, inconclusive report, Mr Blair was faced with a dilemma: either join America and provide useful political cover for a nation nervous about going it alone, or stay out of the war.

The decision was easy for him. First, he believed that Iraq was hiding weapons of mass destruction. In a speech in Parliament on the eve of the war that still makes convincing reading, he listed the weapons Saddam Hussein had possessed at the end of the first Gulf war, and the many occasions on which he had impeded inspectors. Intelligence officials reported that in 1991 Saddam had been within a few months of building a nuclear weapon. Was it credible that someone with his record of violence and rule-breaking would have given these things up voluntarily?

Second, Mr Blair had a good relationship with Mr Bush. Though their politics were different, Mr Blair found Mr Bush easier to work with than Mr Clinton. In that relationship Mr Blair was the less experienced leader, and Mr Clinton frustrated him over Northern Ireland and Kosovo. Mr Bush, by contrast, was straightforward to deal with, and tended to do what he said he would. On the other side of the argument were Gerhard Schröder, the German chancellor, whom Mr Blair had found opportunistic and untrustworthy at European summits, and Jacques Chirac, the French president, whose reflexive anti-Americanism annoyed him.

Third, the invasion of Iraq fitted into the view of Britain's role in the world that Mr Blair had formed by now. The problem was of the same type as Kosovo, Sierra Leone and Afghanistan, only bigger. That made the potential upside bigger too. Mr Blair saw the invasion as the first step in a remaking of the Middle East which, with America's backing, the establishment of a Palestinian state would complete. Once again appeals to history were raised, and Mr Blair dismissed them.

Several hundred thousand lives and no weapons of mass destruction later, the decision looks like a terrible one. First, although he appeared to play a central role in the war, Mr Blair's influence was marginal. He could neither stop America from invading Iraq nor stop the other big European powers from opposing the invasion. His haplessness was made worse when a government weapons scientist named David Kelly, who was caught up in the argument about what the government knew about Iraq's weapons, committed suicide, and an inquiry showed that the government had presented its case for war as stronger than it was. America's humiliation of prisoners at Abu Ghraib, and its holding of dozens of suspects without trial at Guantánamo Bay, suggested awful parallels between the liberators and the regime they had deposed. And every day the number of Iraqi civilian dead continued inexorably to rise. Still Mr Blair refused to say that the failure to find WMD cast doubt on the justification for going to war.

The Thatcher shadow

The cost of supporting America has greatly exceeded the £4 billion ($8 billion) bill for the war so far. Had

Britain stayed out, it might have been able to send troops to right wrongs in other, more tractable places. At home, Mr Blair was distracted from pushing through important but complex reforms to public services.

Yet though Mr Blair's stance on Iraq left him unpopular, he was now, if anything, more prepared to take risks. His argument alone forced through a bill to allow universities to charge their students variable tuition fees, which came within five votes of defeating his government. In 2005 he won a third election, something no Labour leader had done before. It was a grudging endorsement, however. Although the Tories waged a miserable campaign, Mr Blair and Labour received only 36% of votes cast.

Once again, Mr Blair's authority was boosted by a perfectly-judged response to tragedy: this time, to the bombs that killed 52 people in London on July 7th 2005. And then he threw himself into public-service reform with the energy of someone who knew he had wasted time.

Exactly how long he had left was unclear. In the autumn of 2004 Mr Blair spent a night in hospital being treated for a heart murmur, and also announced, coincidentally, that his next term would be his last. He said he would serve it out to the end, which would mean staying until 2009 or 2010, but straight after the election he came under pressure to say when he was going. Relations with Gordon Brown, the chancellor, which had improved for a while, deteriorated again.

Mr Blair did manage to pass another education bill, which allowed schools a bit more independence from government. But it needed support from the Conservatives to pass, and the final version was weakened by Mr Blair's own MPs. Even after a decade as their leader, he had not persuaded them that swapping uniformity—which they called equality—for competition would benefit those who sent their children to state-run schools or had kidneys replaced in state-run hospitals.

But what brought Mr Blair's exit nearer was not anything that happened in Britain. In the summer of 2006, when Israel invaded Lebanon in retaliation for the killing of three Israeli soldiers and the kidnapping of two others, Mr Blair refused to condemn this as a disproportionate use of force. He saw Israel's actions as those of a democratic state acting in self-defence against terrorists, and did not doubt which side Britain should be on. The Labour Party saw its leader aligning himself, yet again, with the hated Bush administration.

Not long before, a conversation between the two leaders had been overheard at a G-8 summit in St Petersburg. “Yo, Blair,” said the president, carelessly, as Mr Blair apparently bent to do his bidding. This was too much for many Labour MPs. Taking advantage of the prime minister's isolation, a handful of junior ministers sympathetic to Mr Brown resigned, trying to force Mr Blair into naming a date for his departure. The result of this mini-putsch was a draw. But it shortened Mr Blair's political life expectancy. On May 10th he announced that he would leave office in the middle of this summer. He will have spent just one year less than Margaret Thatcher in Number 10.

AFP

One door closes, another one opens

Lady Thatcher stayed on too long; her capability was waning even faster than her popularity. Mr Blair too was slow in political terms to seek the exit, and did not sag as badly. Judged narrowly as a politician, he has been a great success. He restored competition to British politics by making Labour electable again. He refused to budge from the political centre and, by doing so, made it his own. Government expenditure

has crept up, and none of the main parties talks about reducing it. Both Mr Brown, Mr Blair's likely successor as Labour leader and prime minister, and David Cameron, the new Conservative leader, are working hard to imitate him.

The hand of history

Assessing Mr Blair as a prime minister is harder. The policies on schools and hospitals that he put in place too late in his premiership are broadly promising but have yet to produce real results, and they have cost a fortune. He gave more autonomy to the non-English parts of the union, but at the cost of national cohesion. His government was too quick to pass new laws in the name of public safety. Pushing for peace in Northern Ireland, to which he was personally committed throughout his time in office, is likely to be seen as his greatest achievement.

But unlike Lady Thatcher, who took over when Britain needed rescuing, or Clement Attlee, who became prime minister when it needed rebuilding, Mr Blair was not required to effect the kind of transformation that his political talents seemed to demand. His challenge was more modest: first, to do no harm. Then the Iraq war held out the possibility of greatness. Failure on that front has changed Mr Blair from a man who wanted to be liked into one who is content to be proved right eventually. What happens on the banks of the Tigris over the next few decades will determine whether he can be.

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Nicolas Sarkozy's victory

The Gaullist revolutionary

May 10th 2007 | PARIS
From The Economist print edition

AFP

Does France know the full implications of what it has voted for?

Get article background

“THE French people have chosen change, and it is change that I will implement.” So declared Nicolas Sarkozy in his victory speech on May 6th, before wildly cheering supporters in central Paris, shortly after the Gaullist candidate was elected France's new president by a decisive 53% of the vote. As the French prepare for the handover of power from President Jacques Chirac on May 16th, their country seethes with a strange mixture of celebration and apprehension. Since Mr Sarkozy is known for his hyperactivity, nobody doubts that he will move fast. But France is also undoubtedly heading for a period of turbulence.

Once again, the French turned out *en masse* on polling day. At 84%, voter participation was way above the latest comparable elections in Britain (61%) or America (64%). Mr Sarkozy's score was not a landslide. But, fully six points above that of his Socialist opponent, Ségolène Royal, it was the highest for a Gaullist candidate—apart from Mr Chirac's run-off score against the far-right Jean-Marie Le Pen in 2002—since Georges Pompidou in 1969. At 52, Mr Sarkozy will become the first French president born after the second world war; the first Gaullist president never to have served in government under Charles de Gaulle himself; the first Gaullist president since Pompidou not to have graduated from the elite Ecole Nationale d'Administration; and the first president whose father (a Hungarian immigrant) was not French.

It is a particularly remarkable performance. Until a few weeks ago, Mr Sarkozy was a member of an unpopular government under a worn-out president. After 12 years of Mr Chirac, this was the Socialist Party's election to lose. As it turned out, Mr Sarkozy managed to style himself as a fresh force for change, while Ms Royal failed to convince. Her message was incoherent: she had 100 campaign pledges, “99 too many”, in the words of one visiting American political strategist. Her strategy was not credible: having denounced the centrists before the first round, she then described an abrupt U-turn to court them during the second. And her television debate performance raised doubts about her character: her explosion of what she called “healthy anger” at Mr Sarkozy seemed as aggressive as it was unprovoked.

Mr Sarkozy, on the other hand, had a clearer sense of purpose. He stuck doggedly to one chief message—France needs to change and the French need to work more—and hardened it with a right-wing law-and-order accent that he kept up even during the second-round quest for the centrist vote. This enabled him both to bag some two-thirds of Mr Le Pen's voters, despite the far-right leader's appeal to his supporters to abstain, and to secure the same share (40%) of the centrist vote as Ms Royal, despite a declaration by the centrist candidate, François Bayrou, that he would not vote for Mr Sarkozy.

In some parts of France Ms Royal did very well. She came top in 11 of the 20 arrondissements of Paris, as well as in a large swathe of central and south-western France, and in many of the working-class *banlieues*.

She also won among the under-24s and older working voters aged 45-59, according to Ipsos, a pollster. Most women, however, did not vote for one of their own: Mr Sarkozy secured 52% of the female vote, as well as of the over-60s and the 25-44s. He also managed, spectacularly, to win in the industrial department of Nord, long a Communist and then a Socialist stronghold, even in such working towns as Tourcoing and Valenciennes. All those campaign stops on the factory floor, posing beside muscular men in overalls and hard hats, seem to have paid off.

On election night at the Salle Gaveau, a Paris concert theatre, the atmosphere was electric. Sarkozy supporters packed the hall to await the results, while hundreds more gathered in the street outside. When Mr Sarkozy at last appeared on the stage, picking his way up the steps with uncharacteristic deliberation, his message was clear: he would “break with the ideas, the habits and the behaviour of the past” in order “to get France moving again”. His advisers, watching from the wings, were unequivocal. “Nicolas has a clear mandate for change,” said Pierre Lellouche, a deputy and a foreign-policy aide, who may be given a national-security job in the Sarkozy administration. “He's an enormously hard worker, and is courageous, so he will implement it.”

Le tourbillon

With unfortunate symbolism, Mr Sarkozy then jetted off to Malta this week—along with Cécilia, his wife, and ten-year-old son—to spend three days aboard a private yacht, courtesy of a French corporate raider. The idea was to take time off to prepare for office. But the outline of his programme, and his team, is already fairly clear. He is expected to name François Fillon, who brought in a contested pension reform and is his jogging partner, as prime minister. He will take Claude Guéant, a steady-minded prefect and long-time chief of staff, with him to that job at the Elysée Palace.

He has promised a small cabinet, of just 15 members, with half the posts going to women. Michèle Alliot-Marie, the defence minister, Rachida Dati, his spokeswoman, Valérie Pécresse, his party's spokeswoman, Christine Lagarde, the trade minister, and Anne Lauvergeon, head of Areva, a nuclear-energy group, are all tipped for jobs. Alain Juppé, a former prime minister and right-hand-man to Mr Chirac who has become a Sarkozy ally, is expected to get a top post. Mr Sarkozy might also make a surprising appointment from the left, finding a job perhaps for Bernard Kouchner, co-founder of Médecins Sans Frontières, or for someone from among France's ethnic minorities.

The first few months will be marked, characteristically, by a *tourbillon* of activity. Mr Sarkozy is likely to head to Berlin for his first foreign trip, to revive the Franco-German alliance and consolidate his tie to Angela Merkel, Germany's chancellor, whom he congratulated in the familiar *tu* style as soon as she was elected. He will also drop in on Brussels to show that, after the paralysis of the twilight years of Mr Chirac and the French rejection of the European Union constitution, France “is now back on the scene in Europe” (see article). Foreign meetings already crowd his diary: the G8 summit in early June, in Germany; the European Council at the end of the month, in Brussels; Africa, sometime soon.

Mr Sarkozy will mark a distinct break with the Chirac era, not just in tone but in substance. He is more instinctively sympathetic both to Israel and to America than any French leader for 40 years; he wants to take a tougher line towards Russia and Iran, and put an end to France's traditional African policy, “based on personal ties between heads of state”, in favour of a more transparent, democratic approach. Mr Sarkozy has called America “the greatest democracy in the world”, and looked immensely chuffed last September after a meeting with George Bush in Washington—despite the disapproval it provoked back home. His rapport with Britain's Tony Blair, who called him “a friend” in a congratulatory message he posted—in French—on YouTube, is genuine; Mr Blair was expected to visit him in Paris this week. He knows Gordon Brown, Mr Blair's presumed successor, far less well.

AFP

Indeed there is almost a danger that Mr Sarkozy's Atlanticist leanings have raised expectations unrealistically high in Washington and London. The new president will certainly be keen to avoid what he called the “arrogance” of the French threat to veto UN military action in Iraq in 2003. But he nevertheless backed Mr Chirac's opposition to the invasion. He explicitly told the Americans in his victory speech that “friendship means accepting that friends can think differently”. Some of Mr Sarkozy's views collide directly with those of America and Britain, including his vehement hostility to Turkish entry to the European Union, his doubts about the continuing presence of French troops in Afghanistan and his industrial protectionism within Europe. President Sarkozy will be an easier transatlantic ally, for sure, but he will still be no walkover.

On the domestic front, say his advisers, Mr Sarkozy intends to use the five-year mandate in three phases. In the first two years, he will implement tough reforms; in the second two years, he will consolidate them; in the fifth year, he will prepare for re-election. His first hurdle is parliamentary elections on June 10th and 17th. Early polls suggest that the French, despite their reputation for rebellion, could well hand him a majority: his party would get 35% of the first-round vote, compared with 30% for the Socialists and 15% for the centrists, according to a CSA poll this week. All candidates scoring at least 12.5% in the first round will go through to a run-off.

Ségolène, still in the cold

Wasting no time, Mr Sarkozy intends to call parliament into extraordinary session this summer. He wants laws passed to exempt workers from tax and social-security charges for hours worked above the 35-hour week (thus both encouraging the 35-hour rule to crumble, and rewarding people for working hard). He also wants to let mortgage-interest payments be deducted from income tax; to tighten immigration rules; and to stiffen sentences for young and repeat offenders.

Other reforms he plans to push through early are a guarantee of minimum service on public transport during strikes; a loosening of the legal right of the big five unions to represent all employees in a workplace, whether or not they are union members; the introduction of a single job contract with progressive rights; the reform of unemployment benefit, in order to penalise claimants who refuse two job offers, while improving services for job-seekers. In time, Mr Sarkozy also plans to make 50% the top limit on all personal taxation and social charges; to grant universities more autonomy to set fees and recruit staff and students; to reduce inheritance tax; and to reform the special pension privileges of certain public-sector workers.

Threats of resistance

Veteran France-watchers say they have heard it all before. Governments have repeatedly tried to trim privileges and benefits in order to rescue the welfare system from collapse, only to be defeated on the street, the favourite theatre of protest for the French. Dominique de Villepin, the outgoing centre-right prime minister, was fatally wounded by street protests and student-led sit-ins against his proposed, less protected job contract for the young. Mr Chirac also backed down in 1995, when Mr Juppé was his prime minister, in the face of crippling national strikes against proposed reforms. Mr Sarkozy, say the sceptics, will lose his reformist zeal once in power, drop his semi-professed liberalism, and ultimately *se chiraquiser*.

Resistance is certainly likely. Mr Sarkozy inspires both admiration and hostility. He was demonised during the campaign by his opponents, almost absurdly so; yet his hard line on immigration and on criminality lent him an undeniable harshness. On election night 730 cars were burned, and protesters clashed with riot police in central Paris and a few other cities. Ms Royal, having threatened at her last campaign rally that the French would revolt if Mr Sarkozy were elected, left it to François Hollande, the Socialist Party leader (and her partner), to call belatedly for an end to violence and for the verdict of the poll to be respected.

With a nod to those who accused him of divisiveness, Mr Sarkozy announced on election night that his was “not the victory of one France against another” and that he would be “the president of all the French”. He will need to be particularly careful to include the country's black and Muslim minorities, at the very least by bringing diversity into his government. Ms Dati, whose parents are north African, would be one symbolic appointment.

The unions, too, could prove difficult. Mr Sarkozy considers his plans for minimum service on trains and buses to be the key to unlocking reform elsewhere. Once it becomes impossible to paralyse cities and stop commuters getting to work, strikes will lose much of their wider political potency. The statutory role of the five largest labour unions to negotiate on behalf of all workers gives them huge clout, and is one reason why Mr Sarkozy also intends to open up first-round elections within companies to representatives outside the dominant five.

Students too, having defeated Mr de Villepin last year, are bracing for a new struggle. This week, student unions at one of the Sorbonne universities in Paris voted to strike and blockade their campus, in protest at Mr Sarkozy's university-reform plans. Not only does he intend to inject a small element of competition into

France's bureaucratic university system, but he laid into the May '68 generation during the campaign, accusing the “inheritors of May '68” of imposing “moral and intellectual relativism” and calling for this heritage to be “liquidated”. As a student himself, a few years after the May events, Mr Sarkozy marched against striking students at his own university, calling for classes to resume.

Powers on his side

Nonetheless, there are grounds to think that President Sarkozy could get further than his predecessors. First, he has a mandate for change. Mr Chirac in 1995 also won a robust majority (52.6%), but campaigned to “mend the social fracture”, not to change France. Mr Sarkozy's mandate secures him electoral legitimacy and, at least in the short run, puts public opinion broadly on his side. For those who considered France too restive, conservative or skittish for change, Mr Sarkozy's victory suggests otherwise.

Second, the crushing defeat of the hard-left parties robs the biggest union, the Communist-backed Confédération Générale du Travail (CGT), of some of its force. The CGT has in the past been behind many of France's biggest street protests. Mr Sarkozy's tactic is to bring in the unions for negotiations first, while holding out the threat of legislation if no agreement can be reached with them. This is how he plans to bring about a deal on minimum service on public transport, telling unions and employers that they have until the end of the summer to do a deal; after that, he will start to legislate.

Third, Mr Sarkozy's hallmark is to introduce reforms with well-communicated and plain-spoken appeals to common sense. The style of his presidency is likely to be hands-on, in contrast with the remoter manner of Mr Chirac, with regular press conferences and, he has suggested, even appearances to explain himself before parliament.

The new president is often caricatured as brutal. Yet during the student protests against Mr de Villepin, Mr Sarkozy urged the prime minister to shelve the reform, since it had never been subject to negotiation and had been rushed through parliament by decree. He has long argued the need to build a consensus around reform by laying out the case for it, rather than proceeding by stealth. If anything, Mr Sarkozy is sometimes too ready to cut deals and to use heavy-handed tactics, as he demonstrated when he was finance minister in 2004, threatening to “out” grocery bosses in the press if they did not bring down prices.

The next six months promise to be turbulent. The Socialist Party too will be keen to resist a politician that their candidate called “dangerous”—although the party itself is now in disarray. Like the Labour Party in 1987, after Margaret Thatcher's third Conservative victory, the Socialists now face a total of 17 years without presidential power, after their own third consecutive presidential defeat. The party is deeply split over what conclusions to draw. Dominique Strauss-Kahn, a moderate, argued in a fierce election-night attack on Ms Royal's performance that the party had not modernised itself and offered only “passé solutions”. Laurent Fabius, by contrast, on the party's left wing, argued that the Socialists should stay true to their traditions. Rival Socialist bigwigs, Ms Royal and Mr Hollande jostling among them, already have their eyes on the 2012 elections, and will struggle to overcome the party's divisions in time for the June elections.

Arguably, this defeat could be the shock that the Socialist Party needs to force it at last to break its old links to the Communist Party and the hard left, and transform itself instead into a modern, electable party of the left. Even if this shift were to take place, however, the space looks too cramped to accommodate both a modernised Socialist Party and the new centrist party, the Democratic Movement, that Mr Bayrou launched this week. During the campaign Mr Bayrou baffled many of his own deputies by lurching towards the left after the first round, laying into Mr Sarkozy and flirting with Ms Royal. In the end, three-quarters of them came out in support of Mr Sarkozy, arguing that, with their roots in centre-right Christian Democracy, they had little in common with Ms Royal's state-oriented economic programme. In return, Mr Sarkozy has offered not to run Gaullist candidates against these deputies in June. It remains to be seen whether Mr Bayrou can do a comparable deal with the Socialist Party.

The Socialists may not like the example, but Mr Sarkozy supplies perhaps the best case study in how to grab hold of a political party, against the will of its elders, and use it to secure the presidency. In a handover ceremony on May 16th Mr Sarkozy will receive the keys to the Elysée Palace from Mr Chirac, the veteran politician who gave him his first break in politics when he was a fresh-faced, long-haired 20-year-old student, and whom he let down by backing a rival presidential candidate 20 years later. Mr Sarkozy declared in that first speech, back in 1975, that “to be Gaullist is to be revolutionary”. Little can Mr Chirac have known then that the upstart youngster would one day seize the presidency on the promise of a

revolutionary break with the era presided over by Mr Chirac himself.

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Iowa's ethanol economy

The craze for maize

May 10th 2007 | BELMOND, MARCUS AND NEVADA, IOWA
From The Economist print edition

Corbis

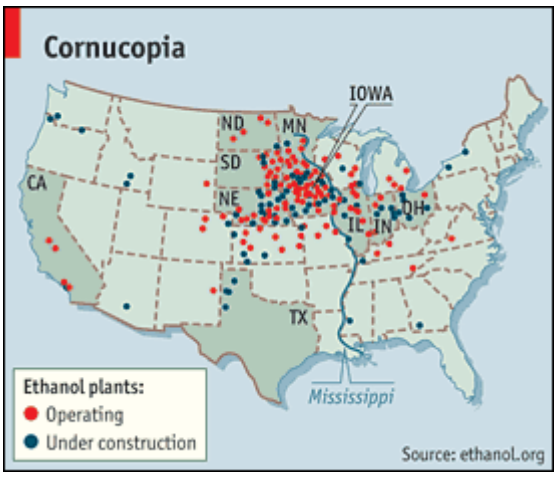
Ethanol is rapidly transforming life in Iowa and the rest of the corn belt

YOU might think that the opening of a new ethanol facility in Nevada, Iowa—a town of 6,700 in the centre of the state—would be of interest mainly to the local farmers who supply the corn that the factory turns to car fuel. You would be wrong. Investors in the refinery include the person who delivers fuel to it, a couple of local parts-suppliers for John Deere (a big farm-equipment company) and the local school-bus driver, among 900 or so other small investors. Like many others in the corn belt, the Nevada refinery is seen as a way for the whole rural community to thrive by exploiting America's new craving for ethanol and the corn (maize) that is being used to make it.

Corn-based ethanol is neither cheap nor especially green: it requires a lot of energy to produce. Production has been boosted by economically-questionable help from state and federal governments, including subsidies, the promotion of mixing petrol with renewable fuels and a high tariff that keeps out foreign ethanol. The federal government offers ethanol producers a subsidy of 51 cents per gallon (13.5 cents per litre); and a growing number of states are pushing for wider use of E85, a fuel blend that is 85% ethanol and only 15% petrol. Since oil prices rose above $30 a barrel in 2004 (they are more than double that now), ethanol capacity has grown especially rapidly. And although the country is experimenting with other renewable plant-based fuels of varying feasibility, from biodiesel to (much greener) ethanol derived from trees, the biggest boom has been in corn-based ethanol.

California has helped to lead the way. When the state banned the use of methyl tertiary butyl ether (MTBE) as a fuel additive after 2003, everyone had to use ethanol instead to meet clean-air standards; and local refineries for the product began popping up to cash in on a state subsidy of 40 cents per gallon at the time.

Outside the Golden State, however, the states most eager to subsidise ethanol were those with golden fields of corn. Wallace Tyner, an agricultural economist at Purdue University, points out that states that had introduced subsidies early, such as Illinois, Iowa, Minnesota and Nebraska, were already building lots of ethanol factories before 2004, whereas corn-belt states without subsidies, such as Indiana and Ohio, did not do much until oil prices rose. Since then, rural areas across the region have been swept up in the ethanol craze, with new facilities sprouting all over corn country (see map).



Iowa, in the heart of the region, already has 28 ethanol refineries, producing 1.9 billion gallons of the stuff a year, nearly a third of America's total capacity. Many new facilities and expansions of existing ones are in the works. On consecutive days in Iowa last week there were ceremonies to break ground for a new factory in Hartley and to open a completed one in Corning—where bad weather had grounded the Vanguard Squadron, the world's only 100% ethanol-powered aerobatics fleet.

Although agribusinesses such as Archer Daniels Midland have built many ethanol refineries, farmers' co-operatives and local investors have also been busily building as well. The first local groups to do so were in remoter areas where farmers could not get the best prices for their corn because of the high cost of transporting it to market. In Iowa, that region is the north-western part of the state, which enjoys high crop yields but gets 25-50 cents less per bushel because it is too far from the Mississippi river barges.

The same logic applied in the eastern counties of North and South Dakota, in south-west Minnesota and in other parts of the corn belt where getting corn to market is costly. So long as a refinery can be built near good rail terminals in these areas, says Ken Eriksen, who analyses transport patterns at Informa Economics, a research firm specialising in agriculture, it is more cost-effective to convert the corn into ethanol and send that to distant markets.

All this activity is benefiting rural economies and related industries big and small. Land prices in Iowa rose 10% last year, and are still climbing. Jobs are being created around the factories. In places such as Lakota and Marcus, which built some of the state's first modern refineries and have made a bundle because of high oil prices and subsidies, local investors have ploughed their profits into home improvements, college fees and farm equipment.

Some people in Iowa are also beginning to talk about livestock. Besides extracting corn's starch content to be turned into fuel for cars, ethanol refineries convert the rest of the crop into distillers' grains. These contain the corn's protein and other nutrients and are increasingly being fed to cows, pigs and chickens near ethanol factories around the country. As Dave Nelson, the chairman of an Iowa ethanol outfit who also grows corn and raises swine, puts it, “we take the candy bar out of the corn and then feed the rest to the pig.”

However, though Iowa has lots of pigs, distillers' grains work much better as feed for beef and dairy cows. And, according to researchers at Iowa State University, the state's refineries already churn out more than five times as much of the stuff as its small stock of dairy cattle can eat. Most of those refineries, therefore, have to use a great deal of energy drying the distillers' grains so that they can be shipped to Texas and other cattle states in the South.

Feeding the by-product directly to local animals would cut energy use at the refineries and transport costs for the feed. Iowans and other Midwesterners think this logic will drive a boom in the region's beef and dairy industries. Plenty of investors, however, view it as an excellent reason to start building ethanol refineries in Texas, which has plenty of hungry cattle.

A more serious long-term threat to Iowa's ethanol industry might come from other biofuels. The federal government is already subsidising investments in cellulosic ethanol, for example, which can convert a wide range of plant life into fuel, but is still very inefficient. Iowans do not seem worried. For one thing, even if cellulosic ethanol can be made viable, that feat remains years away. Moreover, even though switchgrass and other plants can be grown in places outside the Midwest, Iowans will benefit from the fact that leftover corn stalks can also be used for cellulosic ethanol. Instead of worrying about the murky

future, the state's farmers are planting as much corn as they can—and hoping that oil prices stay nice and high.

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Farm subsidies

Insatiable

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Will better times for farmers make it possible to reform farm subsidies?

FROM a distance, the political soil seems ready to yield an impressive reform of farm subsidies this year—if only George Bush and Congress exploit the inputs that are readily available. As it does every five years, Congress must soon renew the farm bill, a bumper collection of legislation that covers crop subsidies, food assistance for the poor, land conservation in agricultural areas, money for rural communities and much else. This time round, the seeds of reform can be found in the good news rolling in from across the farm belt, as booming demand for ethanol has boosted the price of corn and land, and as other grains in scarce supply are also enjoying high prices.

That might cause the public to rethink the merits of welfare for farmers, if Congress were willing to make it an issue. And although media coverage of how ethanol demand is driving up the price of groceries is mostly manure—high transport costs and rising global demand as poor countries get richer are far more responsible for food inflation—such stories at least help to make the ground more fertile for reformists.

So will politicians seize the chance? The proposals that Mr Bush's administration has put forward would do little more than tweak the system. The president wants to cut crop-related subsidies for farmers to about $7 billion a year compared with the $7.5 billion that they would get under current rules. He wants to spend just under $44 billion a year on other kinds of subsidies to poor farmers, including food stamps, school lunches and so forth, which is roughly what the current baseline calls for. And he wants to boost conservation spending, from a current path of $4.9 billion a year to $5.7 billion. Among other things, that would allow the government to continue taking farmland out of production despite rising land costs.

The administration hopes to divert some of the price subsidies to farmers of speciality crops, who resent being left alone like grown-ups while the government coddles producers of corn, wheat, rice and other favoured crops. It is also aiming to cap payments by income, so that more money will go to smaller farms, a goal many Democrats will share. And although it wants to keep tying some payments to actual farm production—which distorts markets and upsets trading partners—it wants to base these on historic yields as well as price, thus providing more of a net for farmers whose crops fail.

In all, however, the administration's plans would do little to disrupt the existing cosy arrangements for farmers. Reformers, including the market-minded and those who want money for other causes, hope that Congress will counter with more sweeping changes. As the relevant committees start to focus more in coming weeks, perhaps they will. But as with many other spending programmes, America's politicians tend to reproduce the same subsidies as they did in the previous cycle. New principles rarely take root in Washington's stony soil.

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Merit pay for teachers

Into the hornets' nest

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From The Economist print edition

Paying for performance is tough

Get article background

"HORRIBLY divisive" is how Gayle Fallon, president of the Houston Federation of Teachers, describes the recent distribution of $15m in bonuses to teachers in the largest school district in Texas. Most teachers received payments averaging close to $2,000. But an angry minority received none; and everyone learned what everyone else got when the *Houston Chronicle*'s website published a list of teachers and amounts. Raising hackles further, 100 teachers were asked to return part of their bonuses because a computer glitch had inflated them.

This was Houston's first year of doling out such bonuses, and its troubles may have prompted the Texas House of Representatives to vote against a statewide merit-pay programme. The idea of merit pay is a good one: teachers should be paid more for teaching better. At the moment, few teachers in America receive bonuses, and their salaries are based mainly on length of service or their degrees. But the system, put in place early in the 20th century, is not working. Jay Greene of the University of Arkansas says that spending per pupil has doubled in the past three decades, while student-achievement measures such as high-school graduation rates are roughly flat.

The tricky part is figuring out the best structure for a merit-pay system. Some districts (including Houston until last year) have showered extra pay on entire schools whose students perform well on tests, but this fails to distinguish good teachers from bad. Tying an individual teacher's pay to his pupils' test scores raises the spectre of teaching to the test. Evaluations by a supervisor can be highly subjective. And teachers' unions almost unanimously oppose merit pay, fearing that it is unfair, encourages competition among teachers and eats into the extra pay that could be distributed to everyone. So far the unions have blocked Joel Klein, the reforming boss of New York City's public schools, from trying a merit-pay system.

The history of merit pay in America is not encouraging. Interest in such systems spiked 20 years ago, during the Reagan era. One leader was Fairfax, Virginia, where in 1986 the school board instituted a voluntary system that paid teachers on the basis of performance evaluations. It was shut down in 1992; teachers disliked it and it cost too much.

Nowadays the idea is being revived in cities around the country, including Nashville, Denver and Little Rock. Florida's governor this year signed into law a new merit-pay system to replace its Special Teachers Are Rewarded, or STAR, programme, which drew criticism for its rigidity (5% bonuses were available to one-quarter of the state's teachers). The school district in Austin is due to start a pilot bonus programme during the next school year. School boards must be sure they have adequate funding.

The trouble is that few studies have been done yet to assess which merit-pay programmes work. Some experts point to Denver's as showing early promise. There, in a programme that began last year, teachers can earn a pay rise in nine different ways, including having extra degrees, their students doing well in exams and serving in "hard-to-staff" schools or subject areas. "Demonstrating satisfactory performance" can earn a boost of $300 or so, and almost all teachers qualify. The system is paid for by a $25m property-tax increase that voters approved in 2005. Enrolment is mandatory for teachers who have joined since January 2006, but voluntary for older teachers. More than 40% of teachers are in the scheme.

Mr Greene, who is adamant that advanced degrees do nothing to improve teachers' performance, has helped construct a programme in Little Rock based purely on pupils' test scores. Preliminary results show a rise of 3.5% in the exam results for teachers in the bonus system as against control schools, where teachers do not receive bonuses. However, he thinks it is too early to draw conclusions. The Houston bonus system that recently caused such a fuss was also based purely on test scores, and it appears to have left some excellent teachers bonus-less.

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Divestment from Sudan

A moral sense

May 10th 2007 | AUSTIN
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But the effects on the carnage in Darfur will be limited

Get article background

SHAREHOLDERS at Berkshire Hathaway's annual meeting last week considered a resolution to divest from PetroChina. The firm's parent company is owned by the Chinese government and has invested heavily in Sudanese oil fields. Oil is the main revenue source for Sudan's government, which has orchestrated the ethnic slaughter in Darfur. On the other hand, PetroChina is quite profitable. More than 98% of Berkshire's shares voted against the resolution.

As shareholders, Americans may not be too concerned about Darfur. As citizens, though, they are a little more interested. National campaigns to encourage states, cities and universities to divest from companies that indirectly finance Sudan's government have notched up several successes in the past few months. Most recently, on May 3rd Indiana became the 11th state to enact divestment legislation. “This expresses the moral sense of Hoosiers,” said Governor Mitch Daniels.

Many Americans share that sense. In Texas, for example, the legislature is considering a bill that would require two state pension funds to divest from companies that do business with Sudan's government. A few critics object to the idea of government interference in state investments, but they are up against the moral high-ground. One of the bill's co-authors is the daughter of Holocaust survivors. The bill's supporters range from Christian conservatives to college hippies. It passed the Senate unanimously and is now before the House.

If the Texas law goes through, the pension funds will divest less than $1 billion—a very small portion of their holdings and not enough to do much harm to the Sudanese regime. And the Texas legislation is not as bold as it could be. If the pension funds can show that divesting hurts their bottom line, they will be allowed to reinvest in the companies in question. On the other hand, supporters say that because Texas is such a prominent state, the messages it sends are commensurately important.

There is no doubt that the issue has reached America's far corners. The *Oklahoman* recently asked Emily Rae Coughlin, a law student, why she founded the Oklahoma City chapter of Save Darfur. “I felt like if I didn't do anything, I was just as bad as the *janjaweed* because I knew it was going on,” she said.

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Florida's new governor

The frugal fisherman

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Charlie Crist is dazzling critics and supporters alike

FOR much of his political career Charlie Crist, the new Republican governor of Florida, was seen as a bit of a lightweight. With his tanned face and neat silver hair, he looked a standard-issue moderate conservative. But since his election last November he has impressed both the left and the right. A poll by Quinnipiac University in March found that 73% of Florida's voters, including 71% of Democrats, approve of the job he is doing. Amazingly, that is 11% better than the highest approval rating of his popular predecessor, Jeb Bush.

In his first 100 days Mr Crist has called for a fight against global warming, an expansion of stem-cell research and the introduction of paper ballots to replace the state's infamous touch-screen voting machines. He also wants to restore voting rights for criminals released from jail: quite a reversal for someone once nicknamed “Chain Gang Charlie” for advocating forced prison labour. And his efforts on behalf of minorities have prompted some to call him the state's “first black governor”. He prodded the state legislature to give $5m to the family of a 14-year-old black boy who died after a beating by guards at a boot camp for juveniles.

AP

Crist is risen

Things are going so swimmingly for the governor that even his frugal visits to the hairdresser are winning raves. The *St Petersburg Times* recently reported that Mr Crist has used the same barber for 30 years, at $9 a snip. The paper compared that to the $800 paid by John Edwards, a particularly preening Democratic presidential candidate, for two haircuts.

Mr Crist was elected after beating a more conservative Republican rival, Tom Gallagher, who was favoured by Jeb Bush and much of the Republican establishment. The right had reason to resent his independence. As state attorney-general he refused to intervene in the case of Terri Schiavo, a brain-damaged Florida woman who was allowed to die after her feeding tube was removed. And when George Bush flew to rally support for Republicans in Pensacola the day before the governor's election, Mr Crist declined to join the president, infuriating party leaders.

Since taking office, his moderate Republicanism has blossomed in a way few had imagined. But he has not had a particularly easy time. After several years of revenue growth in a booming economy, a crisis is brewing over rising property taxes and homeowner insurance. The state's legislative session, which ended last week, faced some difficult choices. Republicans, led by the powerful House speaker, Marco Rubio, strongly pushed for raising the sales tax to increase revenues, but Democrats said this would place the tax burden disproportionately on the poor.

Mr Crist tried to steer a deft middle course between the opposing camps. After the partisan, intimidating “my way or the highway” style of his predecessor, the new governor's all-inclusive approach is seen as a breath of fresh air. Mr Crist has thrown open his office doors to Republicans and Democrats alike.

He also likes Florida, which is an advantage. Governor Bush, a Texan implant, was happy in the Latin hubbub of Miami but famously disdained Tallahassee, the small town in Florida's rural north where the state government sits. Mr Crist is a native Floridian who grew up on the beach with a love for boating and fishing. His fans credit him with putting Florida ahead of his party. “I feel very proud as a Floridian to watch him move forward in such a non-partisan way,” says Susan Glickman, a veteran environmental consultant who did not vote for Mr Crist. “I had no idea he would be this kind of leader.”

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Soldiers in Iraq

Contaminated

May 10th 2007
From The Economist print edition

Reuters

One in three American soldiers in Iraq thinks torture is sometimes justified

Get article background

WHEN the horrific abuse of Iraqi detainees at Abu Ghraib was first revealed three years ago, George Bush dismissed the scandal as the work of just a few “bad apples”. Such actions did not “represent the values of the United States of America”, the president insisted. But according to a Pentagon survey released on May 4th, more than one in three American soldiers in Iraq would condone torture in some circumstances.

Of the 1,767 troops questioned by the Pentagon's mental-health advisory team last September, four in ten (41% of soldiers and 44% of marines) believed that torture should be permitted if it would save the life of a fellow soldier or marine. Almost as many (36% of soldiers and 39% of marines) said torture should be allowed to extract important information about Iraqi insurgents. Less than half (47% of soldiers and 38% of marines) felt that non-combatants should be treated with dignity and respect, as required by the Geneva Conventions.

The number of troops who admitted mistreating Iraqi civilians was nevertheless small. Although nearly 33% acknowledged insulting or swearing at non-combatants, only around 10% admitted unnecessarily damaging or destroying property, and just 4% of soldiers (7% of marines) confessed to hitting or kicking non-combatants “when it was not necessary”. No questions were asked about more serious abuse or torture. Increasing the length of tours in Iraq was found to make soldiers more likely to mistreat people.

Although the vast majority of troops said they had been trained in how to behave towards non-combatants, nearly a third said their own unit officers had not made it clear that maltreatment was unacceptable. More worrying, only around half said they would be willing to report a member of their unit for killing or injuring an innocent non-combatant; an even smaller number would report a comrade for lesser abuse.

The more often and the longer that soldiers were deployed in Iraq, the more likely they were to suffer mental-health problems and to mistreat civilians. About one in five was found to be suffering from depression, anxiety or stress; 20% were planning divorce or separation; 72 American soldiers in Iraq have committed suicide since the invasion.

Despite the soldiers' attitudes toward torture, Major-General Gale Pollock, the army's acting surgeon-general, felt that the report underlined the leadership the military was providing “because they're not acting on those thoughts. They're not torturing people.” But General David Petraeus, America's top commander in Iraq, was “very concerned” by its findings. They indicated “willingness of a fair proportion of soldiers and marines to not report the illegal actions, if you will, of buddies.”

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The campaign

Who's the real left-winger?

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From The Economist print edition

The main Democratic candidates' economic policies are hard to pigeon-hole

ACCORDING to conventional wisdom John Edwards is the protectionist among the Democrats' three leading presidential candidates, Hillary Clinton is the intellectual heir to (Bill's) Clintonomics, and Barack Obama will position himself somewhere between the two. Judging by their advisers and actions so far, the truth may be more complicated. Mr Edwards is running on the left flank, but less rabidly than many expected. And in some areas, notably trade policy, Mr Obama may be to the right of Mrs Clinton.

Begin with **Mr Edwards**. He has assiduously courted union voters in Iowa and Nevada. His campaign dwells on the plight of the poor and the gap between haves and have-nots. But his policies, which at this stage he has laid out in greater detail than has any other candidate, are no radical screed. His health-care plan, for instance, is close to Arnold Schwarzenegger's ideas for California. Both men want to reform insurance markets, tax firms that don't provide health care, expand subsidies to poor people and, eventually, get everyone to buy health insurance. Mr Edwards nods to the left: under his proposal, a government health-plan, such as Medicare, could compete with private insurance providers. But his plan is a long way from the single-payer system that many Democrats have campaigned for.

Nor is the Edwards poverty-fighting strategy a call to class warfare. It takes ideas from the Democratic centre as well as from the left, including housing vouchers for depressed neighbourhoods and an expansion of the Earned Income Tax Credit. His tax simplification plan—under which 50m Americans would no longer have to file tax returns—was plucked from the Hamilton Project, an avowedly centrist outfit, and was dreamt up by Austan Goolsbee, an economist at the University of Chicago and an adviser to Mr Obama.

Superficially at least, Mr Edwards's trade scepticism may have moderated. The man who earned a reputation as a protectionist in 2004 has admitted that trade is important for poor countries and that labour and environmental standards should not be a “a ruse to create a protectionist barrier”. True, Mr Edwards denounced the recent deal with South Korea as bad for America's car industry. But he has so far declined to call for a “strategic pause” on all new trade deals as the party's radicals want. With a secure reputation as a left-winger, he has less need to bash trade.

Mrs Clinton has the opposite problem. The party's left, particularly the unions, worry that she will repeat her husband's embrace of globalisation. Her top advisers are mainly former Clinton administration officials. Gene Sperling, head of Bill Clinton's National Economic Council, and Roger Altman, a Wall Street financier and former deputy treasury secretary, are the mainstays. To counter this establishment reputation, Mrs Clinton has reached out to the left. Dick Gephardt, a former majority leader of the House of Representatives and a well-known trade sceptic, is an adviser. Mrs Clinton's trade rhetoric has been among the toughest of the candidates. She has talked of “a little timeout” before new trade deals are made—exactly what the party's left has been asking for.

Mr Obama has carefully avoided any such rhetoric. His trade strategy, like much else, is still short on details. Like Mrs Clinton, he voted against the free-trade agreement with Central America. But judging by his latest book, Mr Obama is more concerned with helping people deal with globalisation than trying to slow it down. One trade wonk who knows both candidates says that Mr Obama is more of an instinctive free-trader than Mrs Clinton.

Judging by the advisers surrounding him, Mr Obama may end up with more market-oriented ideas elsewhere too. While the Clinton economic team is run by experienced practitioners, Mr Obama relies on his Senate staff and a growing group of young academics, all of whom have impeccable neoclassical credentials. At the centre is Mr Goolsbee, a 37-year-old public-finance whizz. Then there is David Cutler, a top health economist from Harvard, who focuses on changing incentives to improve the quality of health care. David and Christina Romer, a husband and wife team from Berkeley, advise on macroeconomic matters. Jeff Liebman, a labour and pensions expert at Harvard, also plays an important

role. He is the co-author of a bipartisan Social Security reform plan that includes individual retirement accounts.

Advisers such as these bode well for Obamanomics. But some of Mr Obama's prescriptions have been faintly worrying. On May 7th he caused a splash by telling Detroit's car giants that they bore some responsibility for their financial problems. They had failed to adopt clean technology, he said, and so were not producing cars that consumers wanted. Good analysis: but Mr Obama's remedy smacks of old-style industrial policy. He proposes a government bail-out of the firms' health-care costs provided they invest the money in reducing fuel emissions.

Nor is Mr Obama above craven pandering to special interests. He has supported subsidies for liquefying coal, for instance—an environmentally filthy operation, but a lucrative one for coal-rich states such as his own Illinois. He has signed on to ideas from the loony left, such as the Fair Pay Act, a nonsensical bill that demands equal pay for “comparable” work. These are doubtless politically driven decisions: the Fair Pay Act is sponsored by Tom Harkin, an Iowa senator whose endorsement would be most useful. But they suggest it may be too early to declare Obamanomics to be sensible centrism just yet.

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Lexington

The royalty trap

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From The Economist print edition

Kevin Kallaugher

Americans have a dangerous fondness for monarchy

IN 1776 John Adams remarked with pride, at the height of the revolution, that “idolatry to monarchs, and servility to aristocratical pride, was never so totally eradicated from so many minds in so short a time.” This week Americans competed with each other to prove their second president wrong—and nowhere more so than in Washington, DC.

George Bush, who came to office promising “no new tuxes”, threw a lavish white-tie dinner, the first of his presidency. The British ambassador served up Pol Roger and crustless sandwiches for several hundred. Power-brokers and pontificators, Republicans and Democrats, neocons and populists stood in line for a chance to meet the British queen and to catch a few mumbled words of wisdom from the oracle himself, Prince Philip.

The visit seemed to cheer everybody up, providing a welcome relief from Washington's sour politics and dour work ethic. A *New York Times* columnist said that sipping champagne with the queen was “wonderful”. A reporter for the *Austin American-Statesman* commented that Mr Bush was in as “sunny a mood as the sky above”. A TV anchorman gushed that “the White House is taking on an air of royalty this morning—and I'm telling you, what a delight.”

But one of the most conspicuous things about America these days is that it does not take a visit from the British monarch to give the White House “an air of royalty”. In 2009 the betting is that America will see the son of a former president replaced by the wife of another former president. If Hillary Clinton is then re-elected in 2012, the world's greatest democracy will have been ruled by either a Bush or a Clinton for 28 years straight. And why should things end there? Michael Barone, author and pundit, points out that George P. Bush, the current president's nephew, will be eligible to run for the presidency in 2012, Chelsea Clinton will be eligible in 2016 and Jeb Bush will remain a viable candidate until 2024.

Americans have always been in two minds about the monarchical principle. They may have booted out a foreign king in 1776. They may bring up their children with stories of presidents who were born in log cabins or shotgun-shacks. And they may like to boast about their every-man-a-king populism. But they have always been careful not to go too far.

The Federalists reintroduced bits of the monarchical principle as an antidote to what Alexander Hamilton called “the amazing violence and turbulence of the democratic spirit”. And Americans have proved remarkably tolerant of political dynasties. Throughout American history the same families keep popping up: the Roosevelts and Tafts, Rockefellers and La Follettes, Bayhs and Kennedys. Rodney Frelinghuysen,

from New Jersey, is the sixth generation of his family to serve in Congress.

But lately ambivalence is turning into out-and-out royalism. Montesquieu described 18th-century Britain as a republic in the guise of a monarchy, because the elite was happy to swap one royal family for another whenever it suited them (as in 1688 and 1714). These days, it is tempting to argue that America is becoming a monarchy in the guise of a republic.

This is not just a matter of the Bush-Clinton lock on the presidency. It is also a matter of the way people feel about the institution. Walter Bagehot, a 19th-century editor of *The Economist*, argued that people like to see a “family on the throne” because it “brings down the pride of sovereignty to the level of petty life”. Similarly, American politicos chart the clash of great families and their retainers. Biographers probe the psycho-dynamics of presidents' personal relationships. Did “43” invade Iraq as part of an Oedipal struggle with “41”? Will Hillary take revenge on her philandering husband by outperforming him in the Oval Office? And lowbrow journalists compete with each other to reveal what goes on behind the glittering façade of the White House. (One snippet from a recent “intimate portrait” of the first lady: Mr Bush likes to spend his evenings doing jigsaw puzzles, one of which shows the face of his Scotch terrier, Barney.)

There are lots of reasons for America's royalist turn. Dynasties come with brand names that voters can recognise, a huge electoral advantage in a country of 300m people. Both Mr Bush and Mrs Clinton started off their first presidential races far ahead of their rivals. They also come with bands of loyal retainers. Bagehot's insight into the human advantages of monarchy is just as true in the world of tabloid journalism and Kitty Kelley tell-alls: people are fascinated by the doings of princesses like Jenna Bush and kings-in-waiting like George P. Bush.

Bush, Clinton, Bush, Clinton, Bush...

But Americans nevertheless need to recover some of their old republican spirit. There is nothing inherently wrong with the children or wives of politicians seeking high office, but there is definitely something wrong when people start treating them as heirs to the throne rather than candidates. And there is something very wrong indeed when people begin to see politics as a game that is played by “them” rather than “us”.

The dynastification of American political life is weakening America's claim to be a democratic beacon. These days political dynasties are usually associated with the young democracies of South Asia rather than mature republics. The dynastification of its political life also points to a deeper problem: the fact that America is producing a quasi-hereditary political elite, cocooned in a world of wealth and privilege and utterly divorced from most people's lives. The rest of the world is gradually moving beyond “idolatry to monarchs” and “servility to aristocratic pride”. Even Britain has expelled most of its aristocrats from the House of Lords. Does America, which led the world in ditching monarchs, hereditary titles and forelock-tugging, really want to be the first country to start going backwards?

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Venezuela and South America

Hugo Chávez moves into banking

May 10th 2007 | CARACAS AND SÃO PAULO
From The Economist print edition

Peter Schrank

Venezuela and Brazil battle quietly over the shape of a planned regional development bank

Get article background

THERE have been few more assiduous customers of the International Monetary Fund and the World Bank than Latin American governments. Even as they privately welcomed the economic rationality that comes with loans from the fund and the bank, the region's leaders often blamed them for unpopular but needed measures. So it is not surprising that many Latin Americans revile the two multilateral institutions. They see them as dominated by the United States, and as having imposed the “Washington consensus” of macroeconomic stability at the expense of other priorities.

It is that sentiment that Hugo Chávez, Venezuela's leftist president, is trying to tap with his plan for a Banco del Sur (Bank of the South), a development bank funded and run by Latin American countries themselves. If all goes to plan, it will be formally launched next month, and could start operating next year. The preparatory talks involve Argentina, Brazil, Bolivia, Ecuador and Paraguay as well as Venezuela.

But there is a big difference between Mr Chávez's vision for the bank and that of others, especially Brazil. This will probably be papered over at a meeting in Rio de Janeiro on May 11th—but it just might develop into an open split between South America's two most powerful countries.

Mr Chávez sees his bank as part of a wider anti-American political project and as an alternative to the IMF and the World Bank, from which he says Venezuela will withdraw. He has re-nationalised American-owned telecoms and electricity companies. He also threatens to pull out of the Organisation of American States if its sister body, the Inter-American Human Rights Court, condemns his government in a pending media-freedom case.

It is one thing to badmouth the multilaterals but another to leave them, even for oil-rich Venezuela. Pulling out of the IMF would amount to a technical default on Venezuela's bonds and would raise the cost of future borrowing. Leaving the World Bank would tear up bilateral investment treaties that Venezuela has signed with other countries (and which use the bank's investment-dispute machinery).

With the oil price high, Mr Chávez seems happy to alienate foreign investors. Others are not. Both Argentina and Brazil have taken advantage of economic growth and high commodity prices to pay off their debts to the IMF. Neither talks of leaving the fund. Bolivia's Evo Morales is one of Mr Chávez's

closest disciples, but his finance minister says that joining the Bank of the South would not mean pulling out of the IMF.

Ecuador's Rafael Correa shares Mr Chávez's ideas for the new bank. At a meeting of finance ministers in Quito earlier this month, he said it should combine the emergency-aid functions of the IMF with the project lending of the World Bank and the Inter-American Development Bank.

But the ministers did not approve that proposal. They decided that the Bank of the South would be just a “development bank”, adding that a stronger regional reserve fund (a small one already exists) might be created at a later stage. Brazil's finance minister, Guido Mantega, had already rejected the idea that the new bank might provide financial first-aid without the tough conditions the IMF imposes. He called for “modesty and parsimony” in any new body.

After the meeting, Mr Mantega said that each country should contribute between $300m and $500m to the bank's capital. If so, no single country would dominate it, though a coalition of Mr Chávez's closest allies might. Brazil's contribution, Mr Mantega suggested, would come from the national development bank, the BNDES. The development minister, who controls the BNDES, promptly rejected the idea. Though Mr Mantega committed Brazil to the bank, the foreign ministry says the government is still “analysing” the idea.

There are existing South American bodies that could serve as the nucleus for the new bank, including the Andean Development Corporation (CAF) and the Fund for the River Plate Basin (Fonplata). They are not political vehicles. Last year CAF lent over $5 billion. Its Bolivian chairman, Enrique García, has said he welcomes any fresh initiatives along the same lines. But many within CAF doubt that the Bank of the South is viable.

The debate over the bank reflects a broader struggle for influence in South America between Brazil and Venezuela. Brazil's president, Luiz Inácio Lula da Silva, has a good relationship with George Bush, whom he has met twice in recent weeks. But he has always got along with Mr Chávez too, doing little to challenge the Venezuelan's pretensions to regional leadership. This friendship goes down well with many in Lula's Workers' Party, but it has made Brazil look indifferent to Mr Chávez's assaults on Venezuelan democracy.

Recently, Brazil has distanced itself from Venezuela on some issues. In March its communications minister compared Venezuela's state television to Cuba's—the closest any Brazilian official has come to criticising the anti-democratic drift of Mr Chávez's rule. The two countries disagree about energy policy. Mr Chávez echoed Fidel Castro in attacking ethanol, just when Lula and Mr Bush agreed to encourage its production.

Brazil's testiness with Venezuela has been sharpened by Bolivia's treatment of Petrobras, the state-owned energy firm. A year ago, egged on by Mr Chávez, Mr Morales “nationalised” oil and gas, forcing Petrobras to accept harsh new terms for its Bolivian operations. On May 6th Mr Morales issued a decree giving Bolivia's state-owned YPFB a monopoly of sales from Petrobras's two Bolivian refineries, in effect expropriating their cash flow. This time Brazil's government weighed in to condemn the property grab, giving warning that it could hurt relations between the two countries. Petrobras has issued an ultimatum: buy the two refineries for a fair price or face international arbitration.

There is an “inflection” in Brazilian policy, with Lula drawing back from Venezuela and moving towards pragmatic governments in Chile and Peru, argues Sérgio Amaral, a former development minister. But, he adds, there are “clear limits” to this.

These are defined partly by business interests. Brazil's exports to Venezuela rose by 60% last year. Brazilian multinationals are investing heavily. Odebrecht, a construction company, has built a new metro line in Caracas and a bridge over the Orinoco, and is building a $2.5 billion hydroelectric dam. Braskem, Odebrecht's petrochemicals arm, has a $3 billion partnership with state-owned Pequiven, which includes building two plants to produce plastic resins. Companhia Vale do Rio Doce is eyeing Venezuela's mineral riches.

So although Brazil may either stall or moderate the plan for a Bank of the South, it is unlikely to reject it outright. But next time a financial crisis shakes Latin America, expect governments to turn again to the IMF rather than to Caracas.

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Development banks in Latin America

Fading brands

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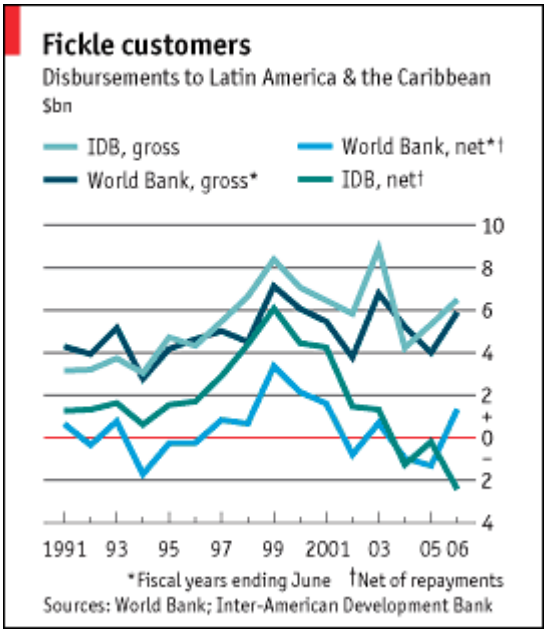
Development bankers face growing competition

IT IS the strange fate of the World Bank to unite enemies on the left and right. While Hugo Chávez, Venezuela's leftist president, wants the bank out of his backyard, its conservative critics think it should let go of most of its Latin American clients, who they say are now much better served by private capital.

Only a handful of countries in the region are poor enough to qualify for the bank's soft loans and handouts. The rest borrow from its money-making arm, the International Bank for Reconstruction and Development (IBRD). This had $36.3 billion of loans to the region on its books at the end of the last fiscal year.

Latin America is where the bank makes much of its money. It earned $1.7 billion in interest and fees last year, 36% of the total. But demand for its loans is wavering (see chart). As the cost of borrowing in the capital markets has fallen, both the World Bank and its regional equivalent, the Inter-American Development Bank (IDB), find it harder to compete on price.



Moreover, private creditors do not care how their money is used, as long as it is repaid. The World Bank is more particular. For example, the projects it backs must take pains not to despoil the environment unduly or uproot indigenous peoples unfairly.

Rather than surrendering its best customers to private creditors, the bank wants to price its loans more keenly and make borrowing less cumbersome, using a country's own auditing and procurement methods wherever they are up to scratch.

The IDB, which has escaped Mr Chávez's ire, faces a similar challenge. “We have to reinvent ourselves,” says its president, Luis Alberto Moreno. He says that one way the bank is doing so is by lending to state and local governments who lack the sovereign guarantee needed to borrow cheaply in markets. It is also focusing on infrastructure projects such as water, sewerage and rural electricity, as well as microfinance schemes.

Both banks are also looking at regionwide projects, which are more complicated to finance commercially. The World Bank has a tele-medicine network, which conveys medical findings in the United States to hospitals in the farther reaches of Latin America. Both also stress that their loans come with valuable technical advice. Critics say they should do more to separate the two.

Mr Chávez portrays the World Bank as a domineering patron, imposing its beliefs on any nation that takes its coin. It would be more accurate to describe it as a fading brand, anxious to serve its customers better in a newly crowded marketplace.

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Argentina

Gas and graft

May 10th 2007 | BUENOS AIRES
From The Economist print edition

A corruption scandal laps around the government

Get article background

CAMPAIGNING for Argentina's presidency in 2003, Néstor Kirchner promised voters that he would “renew the political culture”, cleansing it of corruption. The first three years of his term were free of big scandals. But just six months before a presidential election in which he may seek a second term, his government's reputation for honest dealing is facing its first serious test, as details trickle out about a state-administered pipeline project sullied by front companies, fake billing and suspicions of bribes. Investigations have not unearthed any evidence of wrongdoing by government officials, and the sums involved are fairly small. But opponents claim that the rot goes deeper.

The roots of the scandal lie in Mr Kirchner's energy policy, which relies heavily on price controls. Under Argentina's successful privatisation of its natural-gas industry in 1992, private companies decided where and how much to invest in pipelines. A government regulator authorised tariff increases to pay for the projects.

When an economic collapse forced a big devaluation of the peso in 2002, the government converted all dollar-denominated tariffs into pesos and froze them. Although the economy is booming again, Mr Kirchner only recently authorised the first tariff increase for residential users in five years. To remedy the resulting shortage, the government has sought to expand a pipeline bringing gas from Bolivia.

To pay for this, the government set up a trust fund with loans from Spain's Repsol YPF and Brazil's national development bank, the BNDES. It promised to repay them from a new tax on industrial users of gas. The government then told the pipeline's operator, Transportadora de Gas del Norte (TGN), to proceed with the expansion and to send the bill to the trust fund.

TGN is controlled by Techint, an Argentine steel- and pipemaker. It organised competitive tenders for the work. Among the winners was Skanska, a Swedish construction company. As the work proceeded, a judge received an anonymous tip-off that Skanska had evaded tax by obtaining receipts for $400,000 of non-existent services bought from Infiniti, a company with no employees.

Skanska then began its own inquiry. It found that it had paid 23 different companies for services never rendered; that this money was handed back to Skanska, and that over $4m of it was eventually spent on “improper payments”—though it did not specify to whom. Skanska has sacked seven of its managers in Argentina (all of whom were arrested on May 8th) and has paid the tax authority almost $5m.

The government points out that the affair involves private companies and that there is no evidence of officials receiving bribes. But there are grounds for suspicion. During the tender won by Skanska, TGN complained in several letters to the regulator that all the bids for work that it reckoned should cost no more than $3.5m had come in at almost $9m. The regulator, who reports to the planning minister, responded that TGN should pay the excess. (The government now says TGN's estimate was too low.) Second, according to court documents Skanska was instructed to do business with Infiniti by the government agency responsible for the trust fund.

There are fears of a cover-up. Last year there was a fire in the tax office where documents relating to the case were kept. The investigating judge had previously requested police protection for those offices, but the interior ministry declined to provide it. On March 27th three armed men entered the house of Carlos Russo, the journalist who broke the story, and stole papers containing much of his work.

But investigations continue. Tax officials have searched 22 offices of firms from which Skanska obtained fake receipts. It transpires that Infiniti had over 130 clients for its non-existent services. Esteban Bullrich,

an opposition congressman, estimates that at least $25m of the $285m cost of the pipeline was corruptly diverted.

Mr Bullrich and another congressmen have asked the courts to investigate three senior officials at the planning ministry in connection with the case. The minister, Julio de Vido, is Mr Kirchner's closest aide. His ministry has grown swiftly, and now oversees spending of $4.6 billion a year. On taking office Mr Kirchner appointed Mr de Vido's wife to a senior post in the government's internal audit agency.

The courts are taking a close interest in the ministry's spending. Lavish bus and train subsidies, as well as road tolls, are the subject of some 15 judicial probes. Prosecutors are now scrutinising all public-works projects financed by trust funds similar to the one used for the pipeline.

Mr Kirchner has often criticised what he sees as the sleaze during the government of Carlos Menem in the 1990s. At the time, Argentines were tolerant of such allegations because the economy was growing strongly. The government must hope they are again in forgiving mood.

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Brazil's AIDS programme

A conflict of goals

May 10th 2007 | SÃO PAULO
From The Economist print edition

Helping patients, or science

AP

What price a patent?

Get article background

NO DEVELOPING country has had more success in tackling AIDS than Brazil. The World Bank predicted that by 2000 1.2m Brazilians would carry HIV, the virus that causes it, but prevention schemes have held the number to half that. Anyone who becomes infected—now 200,000 people—is entitled to free treatment with anti-retroviral drugs.

That has required successive governments to act robustly towards the drugs' inventors. In 2001 the health ministry threatened to break a patent held by Roche, prompting the company to drop its price by 40%. Last week, for the first time, the government decided to carry out such a threat. It imposed “compulsory licensing” for efavirenz, produced by Merck, an American drug company.

Compulsory licensing, which is permitted under world-trade rules, will allow Brazil to import unbranded copies of the drug at a quarter of the current price while paying Merck a nominal royalty. The company was “absolutely intransigent” in negotiations, claims the government. Merck retorts that it makes no profit on sales to the poorest countries or to those where more than 1% of adults are infected. Brazil already gets the lowest price of any middle-income country with a lower infection rate.

Brazil wants to join Thailand, which has issued compulsory licences, in paying the poor-country price. Merck has offered a price midway between that and the current price, which costs the government $580 per patient per year. If all the drug companies' profits come from rich countries, they will think twice about inventing remedies for diseases that affect poorer ones, warns Jeffrey Sturchio of Merck.

The dispute is more about saving money than saving lives. The government complains that patented drugs account for most of the near-doubling in its spending on anti-retrovirals since 2003. Buying unbranded efavirenz would save $30m this year. That is modest compared with the $475m spent on anti-retrovirals in 2006.

Is it worth it? “No country can progress without investing seriously in science and technology,” Brazil's president, Luiz Inácio Lula da Silva, has declared. Brazil spends just 1% of GDP on research and development. The breaking of Merck's patent shows that “if you do innovation you're running a risk,” says Fernando Reinach of Votorantim Novos Negócios, which finances technology ventures. Merck says it is “re-evaluating” its investment in Brazil, its main base in Latin America. Brazil has yet to put its order into effect. A last-minute deal could save the government money without turning innovators away.

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The Australian economy

Howard hears the voters grumble

May 10th 2007 | CANBERRA
From The Economist print edition

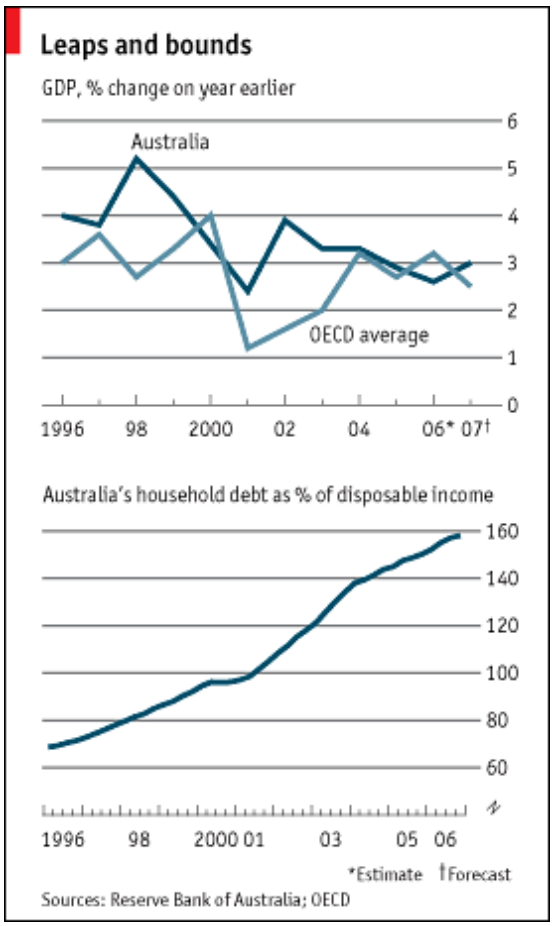
Newspix

Australia illustrates the perils of economic success

Get article background

“AT THIS time, there is a greater than usual risk of the development of policy proposals that are, frankly, bad.” That was Ken Henry, head of Australia's Treasury (finance department), and one of the country's most respected civil servants, speaking confidentially to colleagues in Canberra recently. Mr Henry was giving warning of the dangers that arise when a government faces an election in a booming economy like Australia's.

The country has had 16 years of continuous growth, the past 11 of them under John Howard's conservative coalition. In that period, the economy has regularly grown faster than other industrialised countries (see chart). Thanks to reforms inherited from its Labor predecessor, its own prudent fiscal management and a revenue boom from China's demand for Australia's minerals, the government is blessed with an enormous fiscal surplus, low inflation, unemployment at a 33-year low and a reputation for competent economic management.



With an election due later this year (in October or November), Mr Howard ought to be coasting to victory. Instead, his party has been trailing the opposition Labor Party in opinion polls by an average of 16 points —enough to lose in a landslide. This week's budget, the 12th delivered by Peter Costello, the treasurer, set out to restore Mr Howard's electoral fortunes as he seeks an unprecedented fifth term.

The government has fallen foul, for now, of a resurgent Labor Party on two key points. Voters like Kevin Rudd, who took over as opposition leader six months ago. And Labor has capitalised on the unpopularity of Mr Howard's workplace-law reforms that replace collective bargaining with a system of individual contracts.

Mr Howard has taken two steps to try to neutralise Mr Rudd's appeal. The first came on May 4th, when he watered down his workplace laws, something he once vowed he would never do. The changes give lower-paid workers, the so-called “battlers” on whom Mr Howard has built his success, guarantees of compensation if the new contracts deprive them of overtime pay and other conditions. Business leaders are dismayed.

The second step is the budget announced on May 8th. The Labor leader has struck a chord with voters over promises to boost education and tackle climate change. In response, the budget offered A$5 billion ($4 billion) for new research centres in Australia's public universities, cash to improve literacy and numeracy in schools and incentives for all Australians to put solar panels on their roofs. University vice-chancellors, whose budgets have been squeezed since the government took office in 1996, cheered their windfall.

At the last three of Mr Howard's four election victories, budgets helped restore his fortunes when his government was behind in the polls (though he was never as far behind as he is now). By offering voters about A$30 billion in tax cuts, the fifth cut in a row, A$40 billion in spending on things like for child care, elderly people, and transport, and by keeping an A$10 billion surplus, a possible war chest for more spending closer to the election, Mr Costello is hoping to do the trick again.

But Mr Howard remains vulnerable. The budget's spending could prove to be inflationary rather than productive. This is what Mr Henry had in mind when he worried about bad policy proposals.

The danger is real. Voters have been hit with four interest-rate rises since Mr Howard campaigned at the last election in 2004 on a promise to keep rates low. Chris Richardson, director of Access Economics, a

consultancy, fears the tax cuts might prove inflationary, which could prompt the central bank to raise rates. Given the enormous rise in household debt, Australians would not easily swallow that.

So Australia's boom could prove a “winner's curse”, unless its politicians resolve the conflict between handing out sweeteners and investing for the future. “We're doing so well that we're struggling to deal with it,” says Mr Richardson. Other countries should be so lucky.

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Taiwan

The race begins

May 10th 2007 | TAIPEI
From The Economist print edition

Mixed blessings for China

Get article background

POLITICAL developments in Taiwan rarely bring cheer for China. But the ruling party's surprising choice for its candidate to fight next year's presidential elections will at least provide a little comfort to the government in Beijing. It would be happier still if he were to lose.

Frank Hsieh, a former prime minister who wants better relations with China, won the nomination after a decisive victory in a ballot on May 6th among members of the ruling Democratic Progressive Party (DPP). He got 45% of the vote, compared with 33% for his main rival, the incumbent prime minister, Su Tseng-chang. This was a blow to President Chen Shui-bian, who favoured Mr Su and a tougher stance towards China.

Just as remarkably, given bitter in-fighting within the DPP, Mr Su and the two other candidates withdrew gracefully from the race. According to party rules, they could have fought a further round. Mr Hsieh's nomination will be formally confirmed at the DPP's annual congress on June 30th.

Mr Hsieh has a reputation as a scrapper, having survived numerous crises and failures. These include a defeat as a vice-presidential candidate in 1996 and controversy about alleged connections with a cult led by a man claiming to have supernatural powers who has been convicted of fraud. Only five months ago, Mr Hsieh lost a race for the mayorship of Taipei. He hopes his political fortunes will mimic those of President Chen, who won the presidency in 2000 after losing a bid for re-election as mayor of Taipei in 1998. In the presidential election next March, Mr Hsieh's chief opponent will be the man who defeated Mr Chen in 1998, Ma Ying-jeou, the charismatic nominee of the main opposition party, the Kuomintang (KMT).

Mr Hsieh owes his victory partly to the frustration of DPP members with Mr Chen's lacklustre performance. But he faces a tough battle against Mr Ma. A poll released this week by the *China Times*, a pro-KMT newspaper, put Mr Ma nine points ahead of Mr Hsieh, although he led by 20 points before the primary.

Criminal investigations might yet play a role in the contest. Mr Ma is on trial for allegedly embezzling a mayoral special allowance and has vowed to remain in the race even if found guilty. There is speculation that Mr Hsieh, too, might be indicted on corruption charges in a case dating back to his tenure as mayor of the island's second-largest city, Kaohsiung, from 1998 to 2005. Should he be charged, the DPP would probably put pressure on him to withdraw.

Like President Chen, Mr Hsieh is a former lawyer who in the past defended dissidents under the authoritarian rule of the KMT. Unlike Mr Chen, who takes an uncompromising stance towards China, Mr Hsieh has called for “coexistence and reconciliation”, though he has also called for constitutional revisions aimed at making Taiwan a “normal country”—a goal that has caused considerable anxiety in both Beijing and Washington, DC.

China would prefer a victory for Mr Ma, who has pushed for better ties with China, particularly economic ones. He has not ruled out unification, though he says China must become a democracy first. The coming months are likely to be turbulent ones in Taiwanese politics, something China never likes.

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Art markets in China

798—and out?

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What's worse for artists, communism or capitalism?

ONLY a few years ago, to be an avant-garde artist in China was to court trouble with the government. Now racy modern art fetches high prices at international auctions and chic galleries are magnets for tourists in Beijing and Shanghai. Cannily, the government is turning patron.

For the past four years, avant-garde artists in Beijing have staged an annual festival in a cluster of disused 1950s-era factories. This year's festival, which ends on May 12th, shows how government censors are learning to live with art that pokes a bit of fun at the way China works. It also shows how capitalist China is affecting the artists themselves.

EPA

Political satire, politically correct

The complex, known as 798 after the official code number given to one of its East German-designed military-equipment factories, has had an uneasy relationship with officialdom since fringe artists began setting up studios and galleries in the late 1990s. The landlord, SevenStar Group, a state-controlled conglomerate, welcomed the rent but had plans to redevelop the area. The artists were supposed to move out by 2005.

By then, however, 798 had become a centre of trendy modernity, complete with bookshops, teahouses and restaurants. Demand for modern Chinese art, fuelled by wealthy collectors in China itself, pushed up prices internationally. The city of Beijing had pledged a new look for the Olympic Games in 2008. Officials saw 798 as an opportunity to show off its cultural vibrancy. SevenStar saw money-making potential. Early last year the city government named 798 as a centre of “cultural creative industry”—a priority, it said.

Cynics say 798 has become a misleading showcase for liberal expression in a country subject to stifling censorship. But artists also have other things to worry about. SevenStar, which is sponsoring this year's festival, is pushing up rents. Struggling avant-garde artists are having to look elsewhere for cheap digs.

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Free-trade agreements

The Japan syndrome

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From The Economist print edition

Japan worries about missing Asia's banquet of free-trade deals

Get article background

THE noodle bowl of free-trade agreements (FTAs) in Asia is about to get more tangled. In the past week alone, South Korea began FTA negotiations with the European Union, having struck a deal with the United States in early April. Japan and Australia held a first round of talks aimed at their own agreement. Japan and the Association of South-East Asian Nations (ASEAN) declared that they would seek an FTA by the year's end. And a proposed deal with Thailand went to Japan's Diet (parliament) for approval. Since the fad began at the start of the decade, Asian countries between them have signed more than 70 FTAs.

Yet of all Asian countries, Japan, with the biggest economy, feels least comfortable with the process. It has ratified just four—with Singapore, Mexico, Malaysia and the Philippines. In negotiations with poorer partners, Japan can come across as alternately stingy or overweening.

Now the government is starting to worry that it has been caught napping by China, which has burnished the art of trade diplomacy. As early as 2000, China proposed a free-trade agreement with ASEAN. A deal on trade in goods was signed in 2004 and one on services this year.

More than anything, though, Japan has been jolted by the FTA between America and South Korea. The deal, which has yet to be ratified, would open South Korea to American agriculture exports and investment, while South Korean cars and consumer electronics would go more freely to America. Japan sells much the same kind of things to America, as well as luxury foods to South Korea. So although some officials gloss over the effect on Japan (they argue that a thriving South Korea sucks in Japanese goods), this FTA will increase the competition faced by Japanese exporters in both America and South Korea.

Hence Japan's new urgency for free-trade arrangements. On May 9th private-sector members of the Council on Economic and Fiscal Policy urged the government of Shinzo Abe to instigate free-trade talks with America, followed by the EU. The prime minister's foreign-policy advisers think an FTA with America would deepen Japan's alliance with that country, while keeping the distracted superpower engaged in a region that faces the unpredictable consequences of China's rise and a nuclear North Korea. The council also say that Japan should treble the number of FTAs over the next two years. Some want to reopen long-stalled discussions with South Korea, or even with China.

Such an expansion would not be easy. In Asia, there are historical antagonisms and mutual suspicions to overcome. In America, Japan's competitive cars and the value of the yen (at a 20-year low on a trade-weighted basis) threaten to become political issues again.

But the biggest problem is Japan's coddled farmers. South Korea's new prime minister, Han Duck-soo, recently emphasised that for any bilateral pact to work, Japan would have to open up nine-tenths of its farm trade. Japan now applies tariffs of nearly 800% to all but a tiny amount of imported rice.

Japanese officials think no deal, even with America, would be incentive enough for the government to take on the farm lobby, particularly before upper-house elections in July. Some turn their hopes towards pan-regional discussions as a way to force the issue. China has proposed an FTA among ASEAN, China, Japan and South Korea. Last year, Japan proposed adding India, Australia and New Zealand to the mix. George Bush trumped that in November by advocating a free-trade area spanning the Pacific and covering half the world economy.

Such regional proposals, if given serious backing, would do much to cut through the tangle of Asia's noodle bowl of deals. For now, though, they are all talk. Japanese policymakers insist that a breakthrough on agriculture in the Doha round of global trade talks would compel Japanese leaders to confront the farmers (whose average age is over 60) once and for all. Regrettably, the Doha round seems to be held in

indefinite suspension.

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Asian Development Bank

What are we for?

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Asia's bankroller seeks a new role

IN THE 1960s, impoverished Asia was starved of capital while the West had tons of it sitting idle. So the Asian Development Bank (ADB) was created to recycle the rich world's surpluses. Four decades on, Asia has much less poverty and generates huge capital surpluses. Most governments can now borrow cheaply on financial markets. So is the ADB still needed?

This awkward question topped the agenda when the bank's 67 member countries met in Kyoto on May 7th. A report they commissioned from a panel of grandees recommends a drastic pruning, arguing that the bank should lend less and become mainly an adviser and co-ordinator for the region. Last year the ADB lent $7.4 billion, up 28% on 2005. But its largest borrower, China, is now the bank's third largest provider of funds, so it is partly borrowing from itself. China is also competing with the ADB as lender. In January, it undercut the bank to lend the Philippines $70m to improve the water supply in Manila, home to the ADB's headquarters.

The eminent persons dodged saying which bits of the bank should close, though their logic implies it should stop financing everything from schools to farming. They think it should continue making loans for infrastructure, though even that case is dubious: the $3.7 trillion-4.7 trillion they reckon Asia must spend on infrastructure in the next decade is little more than its governments already have in their reserves.

At the Kyoto summit, some Asian countries discussed an ambitious (and improbable) plan to pool part of their reserves and use them to stabilise currency fluctuations. The eminent persons' report backed a further proposal, that a chunk of these pooled reserves be turned into a regional investment fund, managed by the ADB. America stomped on the idea, insisting the bank should not compete with private venture-capital.

Cambodia and other still-poor countries angrily rejected the report's suggestion that the ADB abandon poverty relief. But across Asia it is not lack of money that keeps people poor: it is misgovernment. In the end, as is customary at Asian summits, little of substance was decided. For now, the ADB will continue shovelling cash at increasingly unwilling borrowers.

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Afghanistan

Hearts, minds and death

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From The Economist print edition

A worrying increase in civilian casualties

THE American army this week delivered an apology, and blood money, too, to the families of 19 Afghan civilians killed and 50 wounded by a special forces unit of American marines near Jalalabad on March 4th. “I stand before you today,” said Colonel John Nicholson, “deeply, deeply ashamed and terribly sorry that Americans have killed and wounded innocent Afghan people.”

The operation was worryingly similar to the slaughter of 24 Iraqi civilians in Haditha, western Iraq, in 2005, one of the more notorious events in the deterioration of security in that country. The Afghan dead and wounded were left strewn along a 16km (ten-mile) stretch of highway after the marines, who were members of a counter-terrorism contingent operating outside the main NATO peacekeeping force, apparently shot up civilian vehicles and passers-by at random in response to a suicide-bomb attack on their convoy. As in Haditha, the marines then tried to cover their tracks.

The killing of large numbers of civilians by American forces, through indiscipline or heavy reliance on air strikes, has marked the campaigns in both Afghanistan and Iraq. Since March there have been five episodes in which Western troops have been accused of killing Afghan civilians. Between April 27th and 29th, for example, an operation by special forces in Herat province led to the deaths of at least 49 civilians and the displacement of 1,600 families, according to UN investigators. On May 9th, the day after Colonel Nicholson's apology, the pro-American governor of Helmand province said 21 civilians had been killed in air strikes there.

Clearly there is a difference between what appears to have happened near Jalalabad (prosecutions are pending) and accidents that occur in war. Accidents are unavoidable when Western troops face an enemy willing to conceal itself within the civilian population (and with little concern for civilian casualties). Still, in the minds of the Afghan population, the perception is building that Western troops have little scruple about civilian casualties, either.

That impression is growing because of scrutiny by an increasingly confident and critical Afghan press, eager to use the freedom it is now supposed to enjoy. In the wake of the March 4th shootings, Afghan journalists were quickly on the scene. Several were threatened or had their film erased by American soldiers. One reporter was told: “Delete the photos or I delete you.”

NATO officials are promising to set up a board of inquiry to include military, civilian and Afghan government members. More money will go to the compensation fund (families of those killed near Jalalabad got $2,000 per death).

But is it already too late? In response to early reports of a massacre in Shindand, Afghanistan's leader, Hamid Karzai, gave warning that Afghans' patience with the foreign troops was “wearing thin”. Mr Karzai has issued similar warnings in the past. But there is mounting evidence to suggest he may be right. This week the upper house of the Afghan parliament called for a ceasefire, negotiations with the Taliban, and a date to be set for the withdrawal of foreign troops.

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Bangladesh

Hasina resurgent

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From The Economist print edition

With troubling implications

Get article background

“IF YOU step on the tail of a snake, you have to kill it,” said one of Bangladesh's senior politicians when the military-backed interim government that seized power in January attempted to exile the country's two leading politicians: the feuding begums, Khaleda Zia of the Bangladesh Nationalist Party and Sheikh Hasina Wajed of the Awami League.

AP

See the conquering heroine come

The attempt has ended in failure. This week the government, under domestic and international pressure, abandoned its efforts to keep Sheikh Hasina, a former prime minister, from returning from abroad. She swept back to the sort of welcome usually reserved for rock stars, despite the government's best efforts to prevent her supporters gathering. Even Mrs Zia, prime minister until last October, whom the government also tried to push into exile, welcomed her rival's return.

With its “minus-two solution” in a shambles, the emergency government has to deal with the consequences. It may hope the courts will convict the many civilian politicians whom its army sponsors have arrested, including most of the leaders of the two main parties. Sheikh Hasina herself faces murder and corruption charges. But if the courts do not oblige—and charges against politicians have never brought convictions in the past—Sheikh Hasina, the daughter of Bangladesh's first president, will be favourite to become the next prime minister, assuming elections are held by the end of 2008, as the government has promised.

It seems Bangladesh will not get the clean break from feudal politics that many had hoped for. Last week Muhammad Yunus, a micro-credit pioneer and winner of last year's Nobel prize for peace, reversed his decision to enter the country's messy politics. Meanwhile, Mrs Zia, whose elder son is in prison accused of corruption, has appointed her younger brother vice-president of her party.

It all seems so predictable. To its credit, the emergency government has aimed to end a culture of impunity in a state rotten with corruption. It has tried to improve the judiciary, stabilise the economy and promised, though so far failed, to put an end to the brutality of its security forces. It has also shown a soldierly taste for micro-managing civilians—including enforcing “no honking zones” in the capital.

But the government's main aim, by its own declaration, is to make Bangladesh's political parties behave more lawfully and democratically. It is hard to know how it will achieve this, unless by force or by suspending elections—steps that would be neither lawful nor democratic.

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Global warming in Africa

Drying up and flooding out

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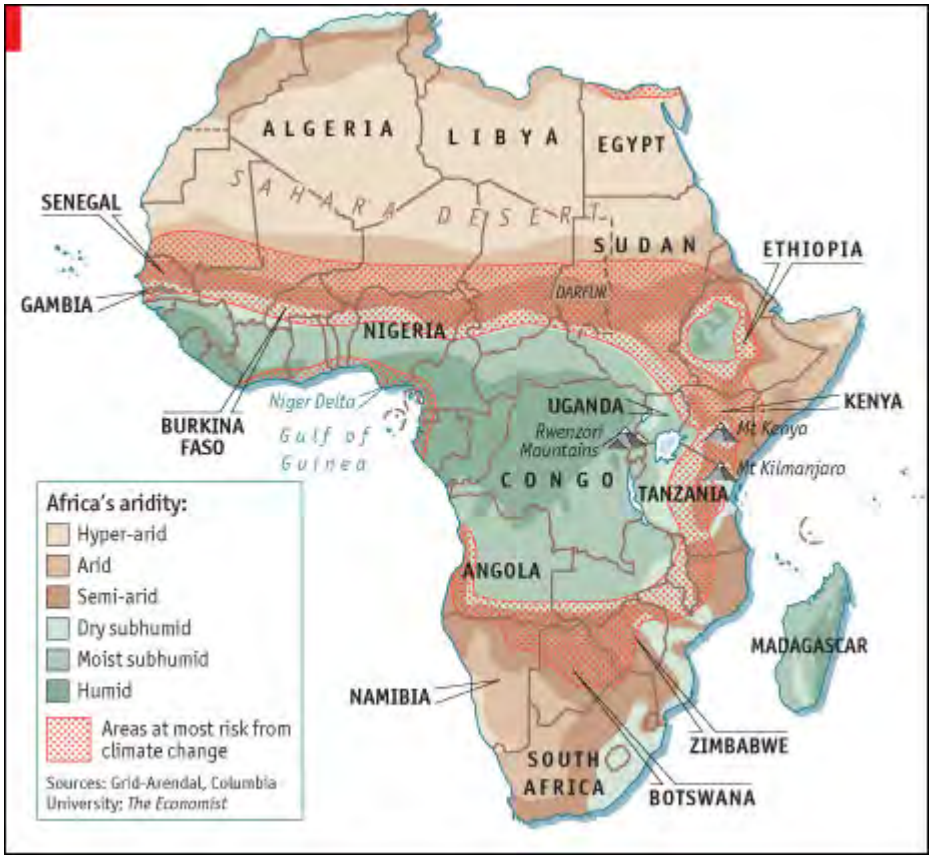
From The Economist print edition

Rich countries may be largely to blame for adding climate change to Africa's litany of problems, but the continent's own politicians have yet to take it seriously

AT A recent African Union summit, Uganda's combustible president, Yoweri Museveni, declared climate change an act of aggression by the rich world against the poor one—and demanded compensation. The moral arguments on climate change are even murkier than arguments about other wrongs done to Africa, such as slavery, but Mr Museveni may have hit on something. If the predictions of the UN's Intergovernmental Panel on Climate Change (IPCC), hold true, climate change may have a graver effect on Africa than on any other continent; the final part of the panel's latest report has just been published (see article). Scientists now blame industrialisation (read, the rich world) for some of the warming. In any event, the contrast between poverty in Africa and carbon gluttony elsewhere is sharp. Why should the poorest die for the continued excesses of the richest?

The IPCC's most recent regional report certainly raises the spectre of rising mortality. It predicts a minimum 2.5°C increase in temperature in Africa by 2030; drylands bordering the deserts may get drier, wetlands bordering the rainforests may get wetter (see map). The panel suggests the supply of food in Africa will be "severely compromised" by climate change, with crop yields in danger of collapsing in some countries.



In the drylands, water may become a critical issue. Soaring temperatures and erratic rainfall may dry up surface water. Between 75m and 250m Africans, out of the 800m or so now living in sub-Saharan Africa, may be short of water. The soil will hold less moisture, bore-holes will become contaminated, and women and girls will have to walk ever greater distances to fetch water. Vegetative cover will recede. The IPCC guesses that 600,000 square kilometres (232,000 square miles) of cultivable land may be ruined.

Warming may also hurt animal habitats and biodiversity. More algae in freshwater lakes will hit fishing. The glaciers of Uganda's Rwenzori mountains, of Tanzania's Kilimanjaro and of Kenya's eponymous mountain may disappear; only seven of the 18 glaciers recorded on Mount Kenya in 1900 still remain. At the same time, a likely rise in sea levels may threaten the coastal infrastructure of northern Egypt, the Gambia, the Gulf of Guinea and Senegal.

There are two caveats to this gloomy scenario. The first is that some parts of Africa may benefit from climate change. Increased rainfall in highland areas in eastern Africa could, for example, be beneficial. Second, though climate-change models have improved, they have been unreliable in Africa. The broad outline is plain but the detail is guesswork.

Still, some scientists think that climate change may be even crueller to parts of Africa than the IPCC predicts. The important point, they say, is not the degree of warming but the continent's vulnerability to it. A University of Pretoria study estimates that Africa might lose $25 billion in crop failure due to rising temperatures and another $4 billion from less rain. The already impoverished drylands would suffer most. Some cite the war in Sudan's Darfur region as proof of the damage done by climate change, soil erosion and overpopulation.

Unfortunately, few African leaders have grasped the scale of the challenge posed by climate change. Most oil-producers have squandered their bonanza. Nigeria has failed to plan for how to stem the dreadful pollution in its oil-producing Delta region or to prevent desertification tearing at the fabric of its dry Muslim north. South Africa is only just beginning to own up to its coal addiction. Uganda's Mr Museveni is fighting off a rare insurrection from his supporters against plans to turn a piece of Ugandan rainforest over to farming. The World Meteorological Organisation says that weather-data collection in Africa has recently got worse, just as the need for accurate figures has grown; many of the automatic weather stations it helped set up have fallen into disrepair. The African Union has done little to sound the climate-change alarm.

Kenya's president, Mwai Kibaki, says that Africa should “join hands” with its friends in the rich world over climate change. He wants more carbon-trading projects to come to Africa; so far, most have gone to Asia. His advisers admit that Mr Kibaki's ambitious plan to turn Kenya into an industrial country by 2020 worries environmentalists, but say that reforestation, thermal power and better management of water and grazing would, if they materialised, offset the damage.

Africa emits far less carbon than other continents, so its recently faster-growing economies do not gravely menace its environment. Some rich-country consumers, however, want to punish African countries for airfreighting northwards some of their produce, from flowers to wine.

Hardier new varieties of staple crops, drip irrigation schemes and technologies such as solar power should help Africa adapt to climate change. But so can simple shifts in policy. For instance, a government decision in Burkina Faso to let farmers own the trees on their land has increased the country's tree cover.

Most vital of all is the cash—probably from rich countries—to pay for roads, schools, clinics and improvements in livestock management in the most vulnerable regions. Whether Mr Museveni's outrage will sway donors is unclear. As the G8 rich countries are failing so far to fulfil the promises they made in 2005 to boost aid to Africa, the continent should not expect much new money to protect the environment. In the short run, Africa's own politicians need to take a lead, even if the people most culpable for the damage done by climate change live elsewhere.

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Sudan

A hopeful wind of change

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Diplomatic pressure over Darfur is coming from unexpected quarters

Get article background

A YEAR ago, Sudan's government and rebels from the Darfur region signed a peace agreement, raising hopes for an end to a civil war that has generated 2.5m refugees and killed perhaps 300,000 people. But the trouble has instead spread into neighbouring Chad and the Central African Republic, to the west and south-west. Last week a top United Nations official said that security in Darfur itself had worsened to a point where delivering humanitarian aid had become “a nightmare”.

Yet, despite the general gloom, the tide of diplomacy may finally be turning against Sudan's government. President Omar al-Bashir may no longer be able to bank on the unstinting support of China, as well as the benign neutrality of the Arab world, to keep the UN and the West off his back if his forces and proxies continue to clobber the region.

For the past 18 months, Mr Bashir's government, whose *janjaweed* proxies are blamed for the worst of the atrocities in Darfur, has consistently resisted all diplomatic moves to let the small and ineffectual African Union peacekeeping force there be beefed up with better-equipped UN troops. It has also refused to co-operate with the International Criminal Court's prosecution of suspected war criminals and has grossly impeded Western aid agencies operating in the region.

With some success among Arabs and Muslims, Sudan has portrayed itself as victim of a Western plot to make it surrender sovereignty—the sort of calamity that befell Iraq. Neighbouring Arab states, already alarmed that an earlier peace deal with southern, non-Arab separatists could lead to Sudan's partition, have quietly backed President Bashir. China, the biggest investor in Sudan's burgeoning oil industry, had also shielded him from UN pressure.

Yet these old diplomatic certainties may be less secure. China, especially, has shifted. It surprised many by voting last October in favour of a bigger UN presence and has since pressed the Sudanese ever more openly to resolve the conflict. This week it went still further by announcing that it would send not only an “engineering unit” to Darfur as part of the limited UN deployment that the Sudanese grudgingly agreed to last month, but also a new special envoy to the region as well. This is the kind of commitment to Darfur that the West has been urging on China for years. Moreover, China's latest promise, plus the offer from Egypt to provide another 750 troops, has undercut Mr Bashir's assertion that any peacekeeping force would be a bridgehead for a hostile Western invasion.

He has yet to accept the proposed full 20,000-man force, but other pressures are mounting. A UN document leaked in April, backed by a more recent report by Amnesty International, an influential human-rights organisation, embarrassed Mr Bashir by asserting that his government had sent new weaponry into the conflict in defiance of a UN ban, and that it has also disguised some of its own warplanes by painting them in UN colours. The Amnesty report said that China and Russia had both flouted the ban by sending arms to bolster the Sudanese army.

Saudi Arabia, now the Arabs' diplomatic heavyweight, has joined the fray too. In a telling intervention, its first as a mediator between two Muslim states, it hosted a meeting between Mr Bashir and Chad's president, Idris Déby, at which they reiterated promises not to undermine each other's regimes.

Other Arab countries are getting involved. Last month, Libya, always keen to play a part, brought regional and international outfits together for a big parley on the crisis. Egypt, along with the semi-autonomous government of South Sudan, has tried to bring Darfur's fractious rebels together to create a joint platform. Unity among the rebel groups is a prerequisite for any Darfur peace plan, especially one involving UN troops, perhaps with Chinese, Egyptians and Saudis among them.

In any event, Sudan may be losing its lock on diplomacy—and the once-solid backing of the Arab countries that matter. A glimmer of hope, then, for Darfuris.

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South Africa

A new leader for the opposition

May 10th 2007 | MIDRAND
From The Economist print edition

The official opposition picks its leader for a pretty thankless task

Get article background

SHE is almost certain never to become South Africa's president. It is virtually unthinkable that her party, the Democratic Alliance (DA), would ever push the ruling African National Congress (ANC) out of power. But South Africa badly needs a vigorous opposition to keep the ANC on its toes, call it to account, pick holes in some of its policies, and offer people alternative ideas if not the likelihood of an alternative party in power. For sure, the looming race within the ANC to succeed President Thabo Mbeki, who must bow out in 2009, is far more important. But the election on May 6th of Helen Zille as leader of the DA, to succeed Tony Leon, is a notable event. It is vital for the well-being of South African democracy that she makes her mark.

After 13 years as leader of what has become South Africa's main opposition, Mr Leon voluntarily stepped down, enabling Ms Zille, an energetic mayor of Cape Town, easily to defeat two rivals for the DA's top job. Her supporters ululated and blew horns, dancing and singing *re ya lewena* (we are going with you). Mr Leon left the stage with cheers, fireworks and *kwaito*, a South African version of hip hop.

AFP

Zille salutes her supporters

He has done a good job, so far as it goes. Since 1994, what is now the DA has evolved through several changes and alliances. At its core is the old Progressive Party, whose leonine survivor, Helen Suzman, was for years the sole liberal opponent of government in the all-white apartheid-era Parliament. Competing in 1994 as the Democratic Party under Mr Leon, it got a paltry 1.7% of the vote. In the last general election, in 2004, as the Democratic Alliance, it got 12.4%. In local elections last year it got nearly 15%, and it now heads a coalition that runs Cape Town.

The cheeky chappie goes

Unlike many in the ANC, who think that national unity requires consensus politics, Mr Leon, a clever, bouncy lawyer, believes democracy must be adversarial. He refused a cabinet post in Nelson Mandela's government of national unity. The ANC has generally detested Mr Leon as confrontational, abrasive and arrogant. For his part, as an outspoken social and economic liberal, he castigates the ANC for—among other things—its authoritarian and centralising tendencies. He has also accused it of racism, including making snide remarks about his Jewishness.

The DA's biggest failure under Mr Leon has been its inability to win votes from black South Africans, who make up 80% of the population and still overwhelmingly support the ANC; the large bulk of DA votes comes from whites and Coloureds (South Africans of mixed race), who each represent about 9% of the population. The DA is reckoned to get less than 2% of the black vote. Unless it breaks into new territory, it will stay on the fringe of South African politics, despite being the official opposition in Parliament.

Last week's DA congress included a fair number of black and Coloured delegates, but its top leadership remains predominantly white. In 2005 most of the DA's black MPs defected to the ANC. Ms Zille, whose parents were refugees from Nazi Germany and who herself was a notable anti-apartheid journalist and campaigner, will find it hard to make inroads into the black vote.

Her best hope of boosting the DA is to run Cape Town better than the ANC runs other big cities, and to show that her party cares for the poor and understands the concerns of black voters. If the DA does well

in Cape Town, it might have a chance of winning Western Cape province in the next general election, in 2009. So far Ms Zille has handled Cape Town's fragile ruling coalition well and has begun cleaning up the city's management. She says she wants to keep both jobs, as mayor of Cape Town and running the DA: a hard task.

In her acceptance speech, Ms Zille signalled her desire to appeal to all by speaking in English, in Afrikaans (spoken by whites of mainly Dutch descent and by many Coloureds) and in Xhosa, one of the country's most widely spoken African languages. She said she wanted to build bridges between South Africa's many cultures, and even urged everyone in the hall to start learning an extra South African language. She said that “black economic empowerment”, the ANC's policy of spreading the country's wealth more widely, “must include ordinary people, not just a small, politically connected elite”.

Sipho Masigo, a young DA city councillor who canvasses Johannesburg's largest township looking for recruits, admits it is not easy. He joined the DA in 2003, frustrated by the inaction of the ANC councillor in charge of the slum that used to be his home. In Soweto, Johannesburg's biggest township, he organises training, helps people find ways to make ends meet and tells them that democracy needs an opposition, pointing at next-door Zimbabwe. People, he says, are warming to the idea.

But the trouble for the DA and its new leader is that South Africa's many poor (measures of unemployment range from 25% to 40%) are keener on left-wing alternatives to the ANC than on the DA's liberal ideas. The ANC's real opposition is from within. The trade unions and the Communist Party, both still within the ruling ANC-led alliance, think it is too cosy with big business. One day the ANC's left may split off, though there is no sign of that happening soon. Meanwhile Ms Zille, who is able and courageous, needs to plug away at promoting her ideas, however limited her prospects of putting them into practice.

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Africa and France

Beyond the banlieues

May 10th 2007 | ABIDJAN AND DAKAR
From The Economist print edition

Will France's new president please the Afro-Francophones?

MANY French-speaking Africans, from Senegal's Atlantic coast to Djibouti on the Red Sea, followed France's presidential election closely. And quite a lot of them are worried that the result of the race between the right-of-centre Nicolas Sarkozy and the leftish, Senegal-born Ségòlene Royal was bad for them.

“We are scared of Sarko. He says he will kick out all the immigrants,” says Kadi, a businesswoman in Bamako, Mali's dusty capital, where Mr Sarkozy was greeted by rowdy demonstrations and accusations of racist policies last year. “We are poor here and they have just gone there to work.” As interior minister, Mr Sarkozy tried to curb immigration at a time when hundreds of Africans were dying as they made for Europe in rickety boats. Calling rioters, who were mainly of African and Arab descent, “scum” during violence in 2005 did not win him many friends in Africa either.

Since his victory, however, Mr Sarkozy has tried to calm African nerves, speaking of a Mediterranean union that would somehow link Africa and Europe. He made a “brotherly call” to Africans, vowing to work on controlled immigration and ambitious development plans. The newly elected president even promised to visit Africa on his first big trip abroad.

But immigration is not the only issue for Africans. Many of the former French colonies have close ties. France still has at least 10,000 troops across the continent that prop up weak governments in places like Chad and the Central African Republic. It is also embroiled in trying to keep the peace in Côte d'Ivoire, once one of its best-run former colonies but since devastated by a civil war that broke out in 2002 and resulted in Ivorians turning against French forces stationed in Abidjan, the largest city and former capital. France also keeps military bases in Djibouti, Gabon and Senegal. It is unlikely that Mr Sarkozy will break such ties in a hurry.

A trickier question is whether he may end what critics see as the friendly yet condescending and even corrupt relations that some French presidents have had with some of Africa's worst rulers. Since the 1960s, an unofficial and secretive department in the presidency has overseen France's links with the continent. In exchange for accepting French influence, almost no dictator, however brutal, has been refused an invitation to the Élysée.

Alioune Tine, a human-rights advocate in Dakar, Senegal's capital, says Mr Sarkozy should bring respect to France's relations with Africa, especially over democracy and human rights. “Relationships between our presidents have too often been so close they shut their eyes to abuses.” A year ago, in Benin, Mr Sarkozy promised to “get rid of the networks of another era”. But Afro-Francophones have heard that sort of thing before.

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Palestine

A capital question

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More Palestinians are losing their right to live in Jerusalem than ever before

ON May 15th, “Nakba [Catastrophe] Day”, Palestinians mourn the loss of most of their homeland to the newborn state of Israel. In a grim irony for them, this year's “Jerusalem Day”, the date in the lunar Jewish calendar when Israel celebrates its “reunification” of the city after capturing the West Bank in the 1967 war, falls the day after.

The 245,000 Palestinians from Jerusalem itself will feel the irony extra sharply. Last year 1,363 of them, many from generations-old Jerusalem families, lost their right to live in the city—up more than six-fold on the year before, and the highest annual total ever.

Demography has been the chief battle-ground for control of the holy city ever since Israel annexed the eastern, Arab part. It tried to consolidate its hold by building Jewish neighbourhoods (illegal settlements, in the eyes of international law) around the Arab ones. Systematic under-funding of municipal services in the east also drove many Palestinians to live in nearby Ramallah or Bethlehem, in the West Bank. Still, Jews today make up only 66% of the city's population, compared with 74% in 1967; a study published this week reported that the Arab growth rate is nearly twice that of the Jewish one.

Israel, meanwhile, has found various grounds to revoke the “permanent resident” status granted to most Arab Jerusalemites after the annexation. This bestows the right to work, get social benefits and vote in local elections, but not a passport or a vote in Israel's national elections—nor, apparently, permanence. In 1995 Israel began to strip the status from Palestinians who could not prove that their “centre of life” was in Jerusalem. It stopped four years later, after it emerged that the policy was making more of them move back.

Now they lose their status if they live abroad for more than seven years or get residency or citizenship in another country. In this respect, Israel treats them like other non-naturalised immigrants, “though it was Israel, in effect, that immigrated to them,” points out Yotam Ben-Hillel, a lawyer at HaMoked, a legal-advice centre. Last year's spike in revocations, the interior ministry wrote to B'Tselem, an Israeli human-rights group, was because of “an improvement in working procedures and control at the ministry, above all at border crossings”.

Even so, Arab Jerusalemites can get their residency back if they have visited Israel at least once every three years. The trouble is that they lose it automatically, sometimes without knowing, and then have to prove their right to it. Ahmed Jubran, who moved abroad in 1989 and has had American citizenship since 1997, says he has come back to visit his relatives at least once a year. Two years ago Israeli border officials began stamping his American passport instead of the laissez-passer that Israel issues to Arab Jerusalemites. They also warned him that he might not always get a visa. Only three months ago did he learn that he had lost his residency. “I'll do anything to get it back,” he says. “Hell, I'll even become Jewish if they want.”

Off you go

However, Jerusalemites who live elsewhere in the West Bank can lose their residency too. Since merely leaving the city entails no border-crossings and thus leaves no records, the authorities subject anyone they suspect of living outside it to a battery of checks, from producing municipal tax receipts and utility bills to enduring frequent home visits from inspectors who poke through sock drawers and kitchen cabinets.

Jerusalemites might have more say over their fate if most did not boycott municipal elections. They stay away partly out of protest, but partly, says Rami Nasrallah, head of the International Peace and Co-

operation Centre in Jerusalem, because the fear of losing residency shapes all their contacts with the authorities. “They have become more individualistic,” he says. “It's a survival strategy.”

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The Balkans

A new battle of Kosovo

May 10th 2007 | NORTH MITROVICA AND PRISTINA
From The Economist print edition

EPA

The outlook is darkening in Kosovo—and in Serbia

Get article background

IN THE cafés of Pristina, Kosovo's capital, most of the talk is of parties. Who is planning the best one to celebrate the country's independence, which Kosovo's leaders have promised will come within weeks? Such questions make their advisers in the province blanch. If, as seems likely, the resolution of Kosovo's future is delayed again, the anger of ordinary Kosovars could be felt quite soon.

On maps, Kosovo is Serbia's most southerly province. But some 90% of its population are ethnic Albanians who have long demanded full separation from Serbia. Since the end of the Kosovo war in 1999, the place has been under the jurisdiction of the United Nations. This week members of the UN Security Council circulated rival drafts of a resolution on Kosovo's future. Many countries, including the Americans and (though some had to be cajoled) all members of the European Union, favour a plan for Kosovo drawn up by the UN's special envoy, Martti Ahtisaari, that envisages a conditionally independent state. But Russian diplomats are firmly against this; they are circulating a counter-draft. They have not quite promised to veto any resolution that endorses the Ahtisaari plan, but they have come close to it. At least one American diplomat has retorted that, if Russia blocks a resolution endorsing the Ahtisaari plan, Kosovo should declare independence anyway—and America, for one, will recognise it.

A wise Kosovo politician, Veton Surroi, accuses the Russians and Americans of “playing chicken” with Kosovo's future, which is just one of many points of dispute between Russia and the West. Lots of “rough scenarios” are on the agenda, he says. If the Ahtisaari plan were to be fully endorsed, the UN mission in Kosovo could be replaced by an EU one, with an international pro-consul similar to Bosnia's. If not, the outcome may be a lot murkier.

Until now, in the hope that Russia would cave in, Western diplomats have insisted that there is no Plan B. Now they are falling back on a Plan C, for contingency. One idea, if Russia refuses to budge, is being called “Ahtisaari minus status”. It would accept much of the plan, including the replacement of the UN by the EU. But determining the formal status of the territory would be put off until a review in, say, a year's time. American diplomats furiously reject this suggestion, arguing that Kosovo's status must be settled now. Yet without the endorsement of the Ahtisaari plan, all other options are unpalatable.

What if the UN fails to approve Kosovo's independence? It was assumed that Kosovo's assembly, which the province's Serb members boycott, would declare unilateral independence, leaving America and others to recognise the new state. But Kosovo's leaders now say they will do nothing without the Americans' say-so. If the assembly declared independence without a new UN resolution, the UN representative in Kosovo would be legally bound to annul the decision, making recognition by any other country tricky. The UN mission in Pristina has asked the lawyers in New York for guidance on what to do—and it is still waiting for the answer.

There may yet be a new breathing-space. Failing a resolution in the next few weeks, some smart money is betting that the whole issue could be deferred until the autumn. Serbs in ethnically compact northern Kosovo are certainly optimistic. Marko Jaksic, a leading Serb in north Mitrovica, is confident that there will be no new UN resolution, thanks to Serbia's resurgent friend, Russia. Even if there is one, he says that northern Kosovo would ignore any declaration of independence.

In Serbia's capital, Belgrade, meanwhile, months of wrangling over the formation of a new government are coming to a head. This week Tomislav Nikolic, leader of the extreme nationalist Radical Party, was chosen as speaker of parliament. He said it was a pity that Serbia was not a Russian province. If no new government is formed by May 14th, a new election must be held—with the Radicals likely to benefit. Sadly, rising hostility in many EU members to expansion of the club has reduced Brussels's leverage against a nationalist revival in the Balkans.

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Turkey's future

A generals' election

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The Turkish political crisis, continued

Get article background

“TURKEY is in the throes of a slow military coup,” reckons one seasoned political observer. How else to describe the past few weeks' events, which have forced Turkey's embattled prime minister, Recep Tayyip Erdogan, to call a general election on July 22nd, before the scheduled November 4th date?

The country is certainly in its worst political crisis in a decade. It has not managed to choose a president to replace Ahmet Necdet Sezer, whose term formally expires on May 16th: the ruling AK Party's candidate, Abdullah Gul, withdrew on May 6th after failing to muster the necessary quorum in parliament. Meanwhile millions of pro-secular demonstrators have marched through Turkey's biggest cities to protest against the mildly Islamist AK government led by Mr Erdogan.

The trouble escalated on April 27th, when the army general staff posted a dramatic statement on its website sketching out the dangers posed by “Islamic fanatics” to Ataturk's secular republic, and vowing to intervene if need be. The army has booted out four governments since 1960. Yet its latest outburst took even the savviest politicians by surprise.

A bigger surprise followed. Rather than roll over like its predecessors, the government is taking the generals head on. First came a statement reminding the brass-hats that they were answerable to the government and not vice versa. Then Mr Erdogan's AK Party tried once again to elect Mr Gul as president, even though the army had made clear that it did not want a man whose wife wears the Islamic headscarf—as Mr Gul's wife does (see article).

Mr Gul was forced to withdraw after a second round of voting in parliament was boycotted by the opposition CHP Party under its antediluvian leader, Deniz Baykal. Thanks to the boycott, the AK fell nine short of the 367 deputies that the constitutional court had ruled needed to be present before voting could proceed.

These games have prompted Mr Erdogan to push for a constitutional change to let voters, not parliament, choose the president. Should Mr Sezer veto this measure, as expected, it may be put to a referendum, to be held with the election on July 22nd. A combative Mr Gul vows then to renew his campaign for the presidency.

The AK Party's bravado stems in part from the continued strong performance of the economy. Unworried by political shenanigans, a foreign-led consortium shelled out $1.2 billion for the operating rights of Izmir's port on May 3rd. An Italian bank is in talks to acquire Turkey's fifth-largest bank, Oyak, for $1.5 billion. And foreign investors, who hold around 70% of floating shares on the Istanbul Stock Exchange, have yet to take fright.

What will the army do next? Much will depend on the outcome of the election. The dream scenario for the generals and their civilian allies would be if AK is pushed into opposition and so unable to pick the new president. A coalition government could then take over. The generals seem unfazed by the memory of a succession of weak coalitions that took Turkey to the brink of financial ruin in 2001.

In pursuit of this goal, and after some nudging from the general staff, two centre-right parties announced a merger last week. Mr Baykal says that he is on the verge of cementing a deal between CHP and a smaller left-wing rival. The rising tide of nationalism also means that the ultra-nationalist right-wing MHP may bag the minimum 10% of the vote needed to get into parliament seats. In a bid to surmount this barrier, the biggest Kurdish party says it may field independent candidates in 45 of Turkey's 81 provinces.

Despite all this, AK Party officials predict that they will pick up a bigger share than the 34% of the national

vote they took in 2002, and return to power alone. “That won't necessarily be a good thing for Turkey either,” says Morton Abramowitz, a former American ambassador to Turkey. “A strong AK government could have a polarising effect.” Worse, it might prompt the generals to wade in again.

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Italy's government

The enduring Mr Prodi

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After one year, Romano Prodi's government looks surprisingly stable

GOVERNMENTS elected for five years seldom brag about surviving for one. But Romano Prodi's centre-left coalition, which will mark its first birthday next week, has good reason to celebrate.

If ever an infant needed incubation, it was Mr Prodi's administration a year ago. His “Union” spans an ideological range from neo-Trotskyist to quasi-Thatcherite. It began life with a majority of just one elected representative in the Senate, the upper house, which has equal power with the Chamber of Deputies. In February it almost came to grief over foreign policy, scraping through a confidence vote thanks to a rebellion by two opposition senators. Yet three months later it looks quite safe.

This week, the European Commission raised its forecast for Italian economic growth in 2007 to 1.9%. It said it expected Italy's once-troublesome budget deficit to come in at only 2.1% of GDP, well under the euro-area ceiling of 3%. And it predicted that the country's debt burden would be trimmed by 1.8 points from 2006, to 105% of GDP.

There are three secrets to Mr Prodi's survival, besides the improving economy. The first is technical. Not all Italian senators are elected. Seven are life senators. Of the five who attend regularly, four usually vote with the centre-left, giving the government a bigger majority than it appears to have on paper.

The second reason for Mr Prodi's survival is the similar durability of his arch-enemy, Silvio Berlusconi, as the centre-right opposition leader. The media tycoon's five scandal-ridden years in office, which ended in his narrow electoral defeat last spring, traumatised the centre-left. If there is one thing that stops its otherwise querulous leaders from bringing down the government, it is the horror of being seen to usher Mr Berlusconi back into power.

One of Mr Berlusconi's own allies is helping to avoid that. Since the election, Pier Ferdinando Casini, leader of the Union of Christian Democrats (UDC), has partly detached his party from Mr Berlusconi's House of Liberties alliance, backing the government on causes it supports, such as keeping a military presence in Afghanistan. The UDC leader dislikes Mr Berlusconi's more confrontational tactics. But he also wants to replace him, and calculates that the longer the government stays in office, the less likely it is that Mr Berlusconi will be the centre-right's candidate at the next election, due in 2011, by which time *il Cavaliere* will be 74.

Mr Prodi's third secret is that most essential political attribute: luck. He came to office spooked by a widening budget deficit into thinking the fiscal situation was dire. He and his finance minister, Tommaso Padoa-Schioppa, set about passing a belt-tightening mini-budget and then a full 2006 budget that raised taxes and, to a lesser extent, cut spending. Yet it soon became clear that cash was pouring into the treasury. This was partly because the economy was benefiting from a Europe-wide upswing, but it was also because one-off measures passed under Mr Berlusconi proved to have enduring effects, by bringing to light previously undeclared sources of tax revenue.

Indeed, Mr Prodi is under pressure from all directions over how to use the windfall. The European Commission wants Italy's still formidable debt to be cut. The left of his coalition wants to reduce the big gap in Italy between rich and poor. The right would prefer to use the cash to cut taxes. The resulting tensions could yet sink Mr Prodi's unexpectedly durable coalition. But, as he will recall from the painful euro-qualifying 1990s, there are worse problems than having too much money.

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Estonia and Russia

A cyber-riot

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Estonia has faced down Russian rioters. But its websites are still under attack

Get article background

FOR a small, high-tech country such as Estonia, the internet is vital. But for the past two weeks Estonia's state websites (and some private ones) have been hit by “denial of service” attacks, in which a target site is bombarded with so many bogus requests for information that it crashes.

The internet warfare broke out on April 27th, amid a furious row between Estonia and Russia over the removal of a Soviet war monument from the centre of the capital, Tallinn, to a military cemetery (pictured below). The move sparked rioting and looting by several thousand protesters from Estonia's large population of ethnic Russians, who tend to see the statue as a cherished memorial to wartime sacrifice. Estonians mostly see it rather as a symbol of a hated foreign occupation.

AFP

Tallinn's unknown soldier, still embattled

The unrest, Estonia says, was orchestrated by Russia, which termed the relocation “blasphemy” and called for the government's resignation. In Moscow, a Kremlin-run youth movement sealed off and attacked Estonia's embassy, prompting protests from America, NATO and the European Union. Perhaps taken aback by the belated but firm Western support for Estonia, Russia has backpedalled. Following a deal brokered by Germany, Estonia's ambassador left for a “holiday” and the blockade ended as abruptly as it began.

But the internet attacks have continued. Some have involved defacing Estonian websites, replacing the pages with Russian propaganda or bogus apologies. Most have concentrated on shutting them down. The attacks are intensifying. The number on May 9th—the day when Russia and its allies commemorate Hitler's defeat in Europe—was the biggest yet, says Hillar Aarelaid, who runs Estonia's cyber-warfare defences. At least six sites were all but inaccessible, including those of the foreign and justice ministries. Such stunts happen at the murkier end of internet commerce: for instance, to extort money from an online casino. But no country has experienced anything on this scale.

The alarm is sounding well beyond Estonia. NATO has been paying special attention. “If a member state's communications centre is attacked with a missile, you call it an act of war. So what do you call it if the same installation is disabled with a cyber-attack?” asks a senior official in Brussels. Estonia's defence ministry goes further: a spokesman compares the attacks to those launched against America on September 11th 2001. Two of NATO's top specialists in internet warfare, plus an American colleague, have hurried to Tallinn to observe the onslaught. But international law is of little help, complains Rein Lang, Estonia's justice minister.

The crudest attacks come with the culprit's electronic fingerprints. The Estonians say that some of the earliest salvoes came from computers linked to the Russian government. But most of them come from many thousands of ordinary computers, all over the world. Some of these are run by private citizens angry with Estonia. Anonymously posted instructions on how to launch denial-of-service attacks have been sprouting on Russian-language internet sites. Many others come from “botnets”—chains of computers that have been hijacked by viruses to take part in such raids without their owners knowing. Such botnets can be created, or simply rented from cyber-criminals.

To remain open to local users, Estonia has had to cut access to its sites from abroad. That is potentially more damaging to the country's economy than the limited Russian sanctions announced so far, such as cutting passenger rail services between Tallinn and St Petersburg. It certainly hampers Estonia's efforts to

counter Russian propaganda that portrays the country as a fascist hellhole. “We are back to the stone age, telling the world what is going on with phone and fax,” says an Estonian internet expert. Mikko Hyppönen of F-Secure, a Finnish internet security company that has been monitoring the attacks, says the best defence is to have strong networks of servers in many countries. That is not yet NATO's job. But it may be soon.

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Charlemagne

Nicolas Sarkozy's European plans

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Peter Schrank

The new European agenda, as seen from the Auvergne

"TONIGHT, France is back in Europe," Nicolas Sarkozy declared after winning the presidential election on May 6th. To casual observers, it may have seemed baffling (where else had France been?). But in Brussels and other European capitals, his message was clear. Mr Sarkozy was reclaiming France's place at the heart of the European Union, nearly two years after the voters had cast her into limbo by rejecting the EU constitution.

It was a message that Brussels badly wanted to hear. The men and women who run the EU may resent French swagger from time to time, but they know that Europe cannot function properly if France is sulking on the sidelines.

Mr Sarkozy appears to have three big ideas for reconciling sullen French voters with the EU. Right now, EU leaders are fixated on the first: to resolve the row over the EU constitution through what he once (but no longer) termed a "mini-treaty". Mr Sarkozy cleared elements of this plan with other EU leaders last year, and is prepared to devote ferocious energy to it in his first weeks in office. He wants to rescue the text by boiling it down to its legal essence, rather like a fine consommé, so that it can be spoon-fed to European citizens without any pesky referendums.

This culinary trick may be harder to bring off than it sounds, but EU leaders seem happy to try it if only to put the constitutional argument behind them. They are more worried about Mr Sarkozy's second big European theme in his campaign: calls for Europe to "protect" its citizens from globalisation. Other EU leaders must have winced, during his victory-night speech, when he warned European governments to heed the anger of citizens who see the EU as a "Trojan horse" for globalisation. It is an unhelpful image: a Trojan horse, after all, is used to invade a walled city that is under siege. The big fear is that a pattern may be set whereby Mr Sarkozy gives himself political cover for reforms at home by loudly carping at the EU's free-trade underpinnings.

Talking Turkey

Such carping will be resisted. But nobody is sure what to do about the third plank of Mr Sarkozy's plan to win the French back to the EU: his call for an explicit statement that Turkey will never become a full member of the EU. One of Mr Sarkozy's top European advisers, Alain Lamassoure, says the new president is not about to call a halt to Turkey's EU entry negotiations, which are set to last well over a decade. But

he adds that Mr Sarkozy thinks Europe is “lying” to Turkey by failing to make clear that the talks can never end in full membership.

Mr Sarkozy does not plan to speak out on Turkey before the June European Council, at which a “road map” for a new EU treaty is to be discussed, for fear of provoking a big row that would overshadow the summit and annoy its host, the German chancellor, Angela Merkel. But before a final deal is done on the treaty, France will demand a political agreement on “stable” borders for Europe: code for fixing limits to enlargement that exclude Turkey. “We have to find the right form of words, and the right moment, but it must happen soon,” says Mr Lamassoure.

Do not expect Mr Sarkozy to be pressed too hard on these ambiguities at this stage. All his European stars are aligned to give him a favourable welcome: he is newly elected by a handsome margin, on a high turnout, to lead a big country that has been causing Europe problems (the dynamics of the union always favour those who cause problems over those who do not). Nor is France just any old problem country. To a unique degree, French voters frighten other EU leaders. If Mr Sarkozy really has found the secret of persuading them that they belong in the centre of Europe, that will give him great clout.

On the basis that Brussels is a poor place from which to observe voters, Charlemagne this week visited deepest France, heading to a village that once had the symbolic distinction of being the centre of the EU. For a few glorious years in the 1990s, Saint-Clément, a hamlet of 300 souls in the high green hills of the Auvergne, lay at the exact geographical midpoint of the then Europe of 12 nations (as calculated by French state geographers). A small monument was built, with flags and a wooden pavilion. The monument still stands, watched over by pretty white Charolais cows and a sign reading forlornly: “Centre of the Europe of 12”. But, alas for French *amour propre*, successive waves of European enlargement have shifted the centre of the EU, first to Belgium, and then on deep into Germany. After the arrival of Romania and Bulgaria in January, the centre of the EU of 27 now lies near the old iron curtain, at Gelnhausen.

The outermost edges of the EU have never been so far away from Saint-Clément. Yet the minds of villagers, it turns out, are firmly fixed on those far-flung frontiers. Sipping restorative glasses of wine after a Victory-Day ceremony, villagers volunteered that they wanted Europe to put up more “barriers”, both to jobs leaving the EU, and to cheap imports coming in. “I wish there were borders, and limits to Europe,” explained the mayor, Fernand Boffety. Real passion was prompted by mention of Turkey. “It's in Asia, and that's that,” said one local, amid fierce head-shaking from his neighbours.

The subject that obsesses Brussels, the EU constitution, drew only shrugs. Less than two years after they voted against it as a menace to the French social model, the villagers appear indifferent to Mr Sarkozy's plan to whiz a new version through the French parliament. Not for the first time, it seems, the EU is focused on the wrong things. Long after its constitutional treaty has been revived in some form, and duly forgotten, Europe's openness to the outside world (notably Turkey) will be of critical importance. Mr Sarkozy understands that—but his instincts are sadly in favour of closing Europe up.

EU leaders are right to want France back at the centre of an open Europe, where it belongs. If only they would now make the case for Europe to be at the centre of a more open world.

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Northern Ireland

A time of peace

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From The Economist print edition

AP

Improbable and exhilarating, self-government is back

Get article background

IN THE end, it was conspicuous for the chuckles. Self-government returned to Northern Ireland on May 8th, as two once-implacable foes took the pledge of office, laughing merrily for the cameras side by side. The Rev Ian Paisley, the head of the Democratic Unionist Party (DUP), who once talked blithely of killing any IRA man who approached a Protestant home, swore to uphold the rule of law as first minister. Martin McGuinness, Sinn Fein's chief negotiator and once one of the IRA's finest, swore in as deputy first minister. For everything there is a season, the Bible says, and Mr Paisley thinks so too: “I believe Northern Ireland has come to a time of peace, when hate will no longer rule.”

Tony Blair, Britain's departing prime minister, will hope so, for as he leaves office peace in Northern Ireland, for which he worked tirelessly during his decade in power, appears his most lustrous legacy. So too will Bertie Ahern, Ireland's premier and another toiler in the peace-process vineyard, for he faces a difficult general election. Most of all, Northern Ireland's almost 2m Catholics and Protestants, at each other's throats for decades, have had enough of violence. Even Mr McGuinness vowed to overcome difficulties and achieve common goals, for “this and future generations expect and deserve no less from us”.

Money, as well as fatigue, brought the two sides to this point. The improbable pairing of Mr Paisley and Mr McGuinness was produced in part by fears that the British government would spend less now that the fighting was over. Peter Hain, the secretary of state for Northern Ireland, had galvanised voters on both sides by suggesting that a devolved government might protect them from steep hikes in water charges and local property taxes, as well as let them shape the fate of their schools.

It helped that Gordon Brown, the chancellor of the exchequer, offered a financial package which he claimed was equal to some £50 billion ($100 billion) over ten years (although Northern Ireland's politicians reckoned that little of it was new money). The first ministers are hoping to screw another few billion out of Westminster. This shared determination to shake Britain down may yet forge a real partnership in Northern Ireland.

The first and biggest task confronting the new government is to rebuild an economy kneecapped by violence and propped up by central-government subsidies. The bombs that tore the heart out of Belfast and many towns disrupted transport, deterred investors and discouraged local entrepreneurs. In an effort to shield the peaceable population, public housing, schools, hospitals and leisure services were kept afloat with public money. The result is a disproportionately large public sector that provides one in three jobs and two-thirds of economic output. The central government spends over £2,000 more per head in

Northern Ireland than it does in Britain as a whole.

Since the IRA laid down their arms two years ago, the economy has benefited: employment has picked up and house prices are rising faster than in the rest of Britain. But on current policies, the central government forecasts, average income will still be less than 81% of the British average by 2014. To kick subsidies from Westminster and spur the economy by tempting investors across the border, politicians in Northern Ireland want the Treasury to drop the corporate-tax rate from the 28% that will prevail in Britain from next year to nearer the neighbouring Irish Republic's 12.5%. (Mr Brown says he has no power to do this but has promised, as is his wont, to review the matter.) Even more important will be measures to slim the public sector and encourage new start-ups at home.

Unionists and nationalists make common cause on broad economic measures—at least for now—but their unity will be tested in other areas. The first contentious issue is what to do about schools: in particular, which ones to close and whether to retain selective grammar schools. In a largely rural region, falling birth rates and empty desks have already led to some reorganisation. Catholic schools have moved the furthest: most of those with spare capacity now cater for Protestant children.

The young new education minister, Sinn Fein's Caitriona Ruane, will take flak from the unionists for pursuing this programme. She must also settle the upheaval caused by Mr McGuinness's pledge, when he was education minister in an earlier attempt at power-sharing, to do away with selective “11-plus” exams that shunt some children towards highly academic grammar schools and others into less-demanding secondary schools. But demography, again, is pre-empting the argument. As schools continue to empty, grammar schools are admitting children who failed the entrance exam. Sammy Wilson, the DUP's education spokesman and a former grammar-school teacher, admits that this has muddied the case for hanging on to selection, as many unionists prefer.

There are other problems too, most of them stemming from the underlying clash of political allegiances, poisoned by sectarianism and years of bloodshed. The oldest loyalist paramilitary group, the Ulster Volunteer Force (UVF), hailed the approach of self-government by announcing on May 3rd that it was going out of business. Its gunslingers, though, agreed only to put their weapons out of reach, not to hand them over. That will bear watching.

So too will the more than 50 “peace walls” built to keep Protestant and Catholic housing apart. Few people want them removed. Until there is popular pressure to do so, no amount of new investment and infrastructure, no display of bonhomie among the new leaders, will conceal the grassroots segregation that the walls signal. There are signs, small but visible, that outside the big cities separation is dwindling. Encouraging it to vanish faster will be the true test of whether self-government in Northern Ireland has worked.

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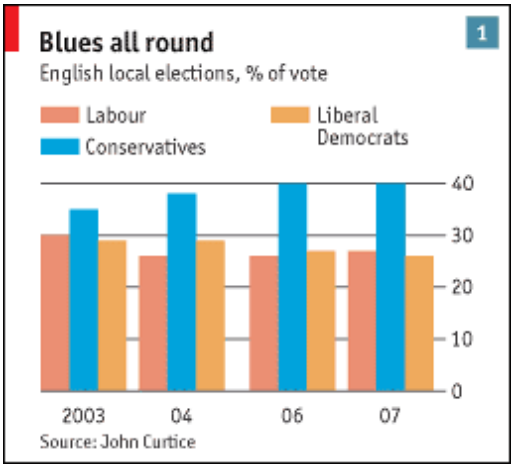
Elections and Scotland

No overall control

May 10th 2007 | EDINBURGH AND LONDON
From The Economist print edition

Political horse-trading in Scotland may be replayed across Britain

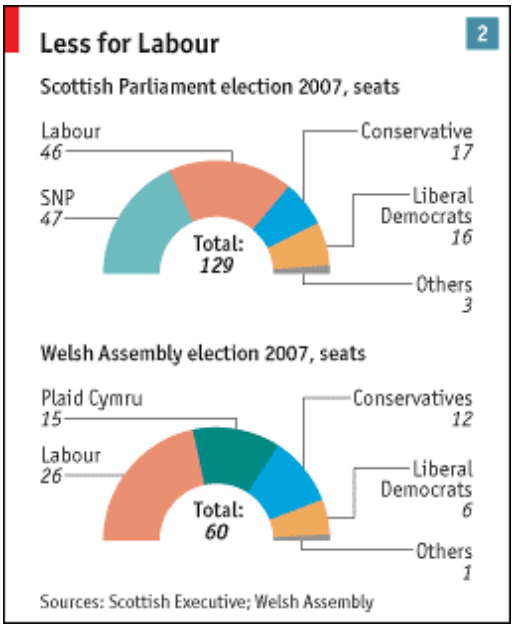
Get article background



A DRUBBING for Labour was on the cards, and a drubbing was duly administered. On May 3rd voters in many areas of England and Scotland went to the polls to elect around half of their local councillors; those in Scotland also voted for their Parliament and those in Wales for their Assembly.

At the fag-end of Tony Blair's premiership, the only consolation for his party was that the result was not worse. In the English council elections, Labour lost nearly 500 seats (see chart 1). It saw its share of the vote edge up a mere 0.3 percentage points from last year's terrible showing, according to a BBC analysis of 750 wards where all three main parties contested seats both this year and last. In the vote for the Welsh Assembly it lost a horrendous seven percentage points, mostly to the Welsh nationalist party, Plaid Cymru.

But the biggest change was in Scotland (see chart 2), where Labour was knocked from the top spot for the first time in 50 years by the Scottish National Party (SNP). The day after the vote Alex Salmond, the party's leader, declared—in conscious imitation of Mr Blair in 1997—that a “new dawn” was breaking across Scotland.



The SNP's victory was marred by the messiest voting in recent British history. Some 142,000 votes (3.4% of those cast) were said to have been filled in wrongly. In 16 constituencies the number of ineligible votes exceeded the winning candidate's majority.

Voters were supposed to put their crosses in two different columns—one for a constituency candidate, the other for a regional party list vote—but many put both crosses in one column. At the same time, they were asked to rank their preferences for local councillors numerically on a separate piece of paper. Some put the numbers on the wrong ballot.

Douglas Alexander, the Scottish secretary and the man responsible for designing the ballot paper, has asked the Electoral Commission to investigate. Mr Salmond wants a full judicial review, which would take several months.

The SNP has more immediate worries. Mr Salmond had hoped to form a coalition with the Liberal Democrats (with 16 seats) and the Greens (with two). This would have produced a bare majority in the 129-seat Parliament. But the Lib Dems are not willing even to talk unless the SNP drops its pledge to hold a referendum on Scottish independence in the next four years. Parties that favoured the union had won about two-thirds of the vote.

Mr Salmond now hopes to form a minority government, probably with the two Green MSPs. He is unfazed by the prospect of having to construct coalitions to support every piece of new legislation. Officials at the Scottish Executive have apparently been studying Denmark, where at least seven political parties have jostled for power since 1973 and minority governments are common. Nobody thinks Denmark is unstable,

Mr Salmond points out. And in Scotland, unlike Westminster, it takes a two-thirds majority to topple a government through a vote of no confidence. The SNP has more than a third of the seats.

Labour's opponents elsewhere were rejoicing too. In England the Tories chalked up almost 900 new council seats, and did a bit better in the north, where they have made a poor showing in recent years. If the same pattern were repeated in a general election, their 40% share of the vote and 13-point lead over Labour would let them form a government in Westminster, with a majority of 20 or more.

But the Tories should moderate their joy, warn John Curtice of Strathclyde University and Stephen Fisher of Oxford University, both election-watchers. If their share of the vote in the regional elections in Scotland and Wales is also taken into account, that lead shrinks to 12 points and the majority to a mere ten seats.

Moreover, most of the council seats the Tories won on May 3rd were last contested in 2003, when the party was languishing under different leadership. Compared with 2006, the Tory showing is less impressive: their share of the English vote rose by only 0.4 of a percentage point.

The main reason why the Tories' lead may be precarious, though, is that voters tend to be keener on Labour in general elections than in local ones. And when choosing representatives for Westminster, some straying Scottish and Welsh nationalists might well return to the Labour fold.

Although Labour got the worst headlines, the biggest losers on May 3rd appeared to be the Liberal Democrats. Nearly 250 councillors down in England, they are failing to hold on to the votes they originally garnered by opposing the invasion of Iraq. According to Mr Curtice, their support fell most in areas where Labour is traditionally strong and students are numerous—exactly where being anti-war had previously played best.

But the Lib Dems should take heart. Unless there is a decisive shift in support between the two main parties before the next general election, the closeness of the Scottish elections may be replayed at Westminster. Then even a struggling third party would find itself holding a strong hand.

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Interest rates

An unshocking increase

May 10th 2007
From The Economist print edition

A long squeeze lies ahead

Get article background

WHEN the Bank of England raised interest rates in January, it caught the City unawares. This week the surprise would have been if the bank's rate-setters had stayed their hand. The monetary-policy committee (MPC) duly hoisted the base rate on May 10th by a quarter-point, taking it to 5.5%, the highest for six years.

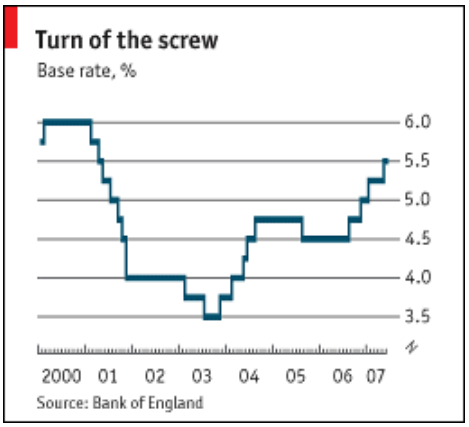
The move had seemed assured since the middle of last month, when official figures revealed a surge in inflation. Consumer prices rose by 3.1% in the year to March, more than a percentage point above the government's 2.0% target that the bank is expected to meet. This triggered an unprecedented open letter from Mervyn King, the bank's governor, to Gordon Brown, the chancellor of the exchequer, explaining why the overrun had occurred.

This week's dose of monetary medicine may have been predictable, but the City's rate-diviners are divided about what the MPC will do next. Some think that it may now have completed the monetary tightening that started last August, when the base rate went up from 4.5% to 4.75%. Others concur with expectations priced in the financial markets, which suggest another quarter-point rise later this year, maybe as early as next month.

The idea that the bank has done enough by raising the base rate to 5.5% may seem sanguine. But a dramatic decline in inflation is now likely. Electricity and gas prices, whose exceptional rise in 2006 did much to drive inflation up last year, are now coming down. As a result, inflation is widely expected to fall back to the target of 2.0% by the end of the year.

In any case, the MPC sets interest rates to hit the inflation target in two years' time, since it takes that long for shifts in policy to exert their maximum effect on prices. The bank signalled in its *Inflation Report* in February that a rise in the base rate from 5.25% to 5.5% would be enough to hit the inflation target in early 2009. Significantly, Mr King said in his letter to the chancellor that the jump in inflation seemed unlikely to alter the broad picture painted in that report.

However, the bank has also expressed two worries that may swing the argument in favour of still-higher rates. The first has to do with influencing expectations, which play a crucial role in determining inflation. Although pay rises have been surprisingly moderate in recent months, firms have become more confident about their ability to push through price increases. Another rate rise would reinforce the message that the bank means business. This would make companies think again about ramping up prices.



The second worry is that monetary growth looks uncomfortably high. The broad M4 measure of money has been rising by over 10% a year since March 2005, most recently by almost 13%. After the failed monetarist experiments of the early 1980s, most central bankers concluded that the link between money and prices was too uncertain to offer practical guidance. But in a lecture on May 2nd, Mr King highlighted the need to monitor monetary growth, specifying previous episodes when it had presaged higher inflation.

These two concerns point to two conclusions. First, another rate rise remains quite likely. Second, the bank will be cautious about loosening policy. The squeeze will continue for quite some time.

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Dividing the Home Office

Splitting headache

May 10th 2007
From The Economist print edition

The latest change to British bureaucracy won't be the last

RESIGNING from a department before it exists is quite a feat. But on May 6th John Reid, the home secretary, managed something pretty close to it when he announced his intention to leave the Home Office as soon as the prime minister steps down at the end of June. Mr Reid's declaration came three days before the launch of the new-look, slimmed-down department that he had spent months lobbying for. He will have just a couple of months at its helm while serving out his notice.

The carve-up, much the biggest of Labour's many changes to the Whitehall bureaucracy, lopped prisons, probation and sentencing off the Home Office beat and gave them to a new Ministry of Justice. This body also absorbed the Department for Constitutional Affairs, which ran the courts and the judiciary. Like the Home Office, the Ministry of Justice will initially be led by a lame duck. Lord Falconer, a close friend of Tony Blair, is expected to leave office when the prime minister does.

Terrorism is the main reason given for the split. Mr Reid says the new Home Office will be “faster, brighter and more agile” at catching bombers. It will handle policing, ID cards and immigration, and a new security and counter-terrorism outfit will take over from the Cabinet Office, which used to co-ordinate security. Giving anti-terrorism to the Home Office may sharpen accountability, says Charlie Edwards of Demos, a think-tank, but handing control to the law-and-order brigade may mean fewer attempts to win hearts and minds.

A Ministry of Justice drawing together all the threads of the justice system, first mooted in 1918, is hardly new thinking. And it is the norm outside Britain, whose sprawling 225-year-old Home Office was an international oddity. But the change has gone through remarkably quickly: the new ministry opened on May 9th, just six weeks after the split was announced.

This has caused alarm even among those who support the move in principle. The Law Society and Bar Council both want to bring courts and prisons under one roof. They worry, however, that the courts' kitty could be raided to pay for jails, because politicians consider them more important than unglamorous causes such as legal aid.

More rush also means more confusion. The Home Office's recent woes include losing track of dangerous criminals through poor record-keeping. Yet managing information is often the main problem in such splits, says Christopher Hood of Oxford University, who reckons a big change like this could take two years to bed down. If the press office phones weren't working on launch day, what else is going wrong?

Yet Labour is practised at institutional change. Of the 14 big Whitehall departments, nine have been created or rejigged since the party came to power in 1997. (And, according to a report in the *Guardian*, Mr Blair once planned to split up the Treasury, too.) This is possible because, in Britain, breaking up is easy to do. When America formed its Department of Homeland Security four years ago, it took an act of Congress; British MPs tend to hear about such changes in press releases. “It's sometimes said that the UK has the fastest system in the West for doing this,” says Mr Hood. Germany's arrangements are also flexible, he points out, but coalition governments slow down the process there.

Shuffling the departmental furniture is doubly tempting for ministers frustrated in their attempts to change the way a ministry operates. Reorganisation may be no bad thing. But it is likely to distract from more important business, such as defining clearly what ministers are accountable for and what falls to officials, the source of many blunders.

With a new prime minister on the way, more bureaucratic tinkering is likely. Whitehall-watchers have long predicted the end of Trade and Industry, which they joke is not so much “not fit for purpose” as without any purpose at all.

One bizarre consequence of this week's changes is that the Whitehall offices for Scotland and Wales now come under the Ministry of Justice. Guy Lodge of IPPR, a think-tank, wonders if this strange fit might be improved by creating a new department for devolution. Now that regional elections have knocked the Labour Party off its perch in both places, Labour politicians in London may be looking for a discreet venue for resolving problems with the nations anyway.

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Seaside resorts

The Redcoats are coming

May 10th 2007 | MINEHEAD
From The Economist print edition

Forget Glastonbury. All the hip young things are going to Butlins

“A WEEK'S holiday for a week's wage” was the slogan that first tempted millions of working class families to Billy Butlin's seaside camps. The travelling hoop-la stallholder, whose early attractions included Dare Devil Peggy, a one-legged high-diver, opened his first resort in Skegness in 1936, offering full board and free entertainment from 35s per week (£85 in today's money). Two years later Parliament enshrined the right to a week's paid annual leave, and demand soared. Butlin opened eight more resorts, offering the same jolly mix of outdoor games and cabaret by manic “Redcoat” entertainers. He made a fortune and became Sir Billy after giving much of it away.

These days a week's wage goes further than it did. By the 1980s even poor families could afford package deals to sunnier climes than Skegness, and back home there came competition from swish new outfits such as Center Parcs, a chain of sporty retreats. By the end of the 1990s four Butlins resorts had shut (one in Ireland now houses asylum-seekers) and two more had been taken over by a rival. The Butlins brand, sent up affectionately in a television comedy, “Hi-de-Hi!”, became a bit of a joke.

No longer. Last weekend Butlins in Minehead, on the Somerset coast, was crammed with 6,000 affluent twenty-somethings enjoying the dodgems and crazy golf. The clothes were expensive. The haircuts were terrifyingly fashionable. One or two people were even spotted reading *The Economist*.

Butlins has entered the music-festival business. Last weekend it put on “All Tomorrow's Parties”, a tri-annual bash which attracts obscure bands and famous fans. The programme was similar to those at other festivals, but the venue was unusual. “I can't remember the last time we played in front of a Burger King,” observed one performer. Yet most Butlins features went down well: beds, showers and flushing loos are all luxuries on the festival circuit, and no other gig boasts a tropical swimming pool. And at £120 it still managed to undercut most other festivals.

Butlins now holds about 50 adults-only weekends per year across its three resorts, making up some 35% of its business. This summer its staff are off to Ibiza to promote an October “reunion weekend” for British clubbers. Big dance names such as Ministry of Sound will manfully try to rekindle the Balearic spirit in Bognor Regis.

The young audience is well-heeled, spending masses on beer. And festival goers are easy to please, accustomed as they are to the muddy miseries of Glastonbury and the like. A three-hour wait for the coach did little to dampen spirits; out came the harmonicas and the hippies were happy. Naturally peace and love presents another business opportunity: since last year Butlins has been doing weddings, from £50 a head.

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Bagehot

After he is gone

May 10th 2007
From The Economist print edition

Steve O'Brien

Life after Tony Blair will have some surprises

Get article background

WE MAY think we know what politics will look like without Tony Blair, but when a big personality leaves the scene things are never quite as we expect them to be. Margaret Thatcher's fall was greeted by her party with a deep sigh of relief. A brief Tory revival followed, but then came destructive civil war for most of the next decade. David Cameron, 17 years after her toppling as leader, is the first true post-Thatcherite leader of the Conservative Party.

This is not to suggest that something similar will happen when Mr Blair goes later this summer. But the landscape will look very different without him, and in ways that are not entirely predictable. The first point to note is that Mr Blair is leaving at a bad time for Labour, which increases the chances of instability in the governing party. If there was any doubt before, last week's English local elections and regional elections in Scotland and Wales confirmed Labour's weakness. The progressive (anti-Tory) coalition that made Mr Blair the most effective election-winner in Labour history has all but fallen apart.

The party's narrow defeat by the separatist SNP in Scotland was a seismic event. In Wales, the left-of-centre split three ways. On an otherwise bad night for them, the Liberal Democrats made gains in some of Labour's redoubts in the north of England. As for the south, which delivered Labour its landslides in 1997 and 2001, thanks to Mr Blair's unique ability to empathise with its aspirational voters, a return to something like the party's “southern discomfort” of the 1980s seems distinctly possible.

Whether Mr Blair could ever have put that coalition back together again is beside the point. However, he was perhaps the one politician capable of forging it in the first place. Mr Blair's particular genius was to be able to float above his party and appeal far beyond its core vote. His own lack of tribalism sent a signal to the electorate that old loyalties were out of date and could safely be abandoned.

The challenge Mr Blair has set Gordon Brown, his chancellor of the exchequer and probable successor, is to rebuild the traditional centre-left—which is split between Labour, the Lib Dems and nationalist parties in Wales and Scotland—while preventing the Tories' tightening grip on the south from turning into a lock. Yet success in one almost guarantees failure in the other.

A broken coalition is not Mr Blair's only legacy to his would-be heirs. The Labour Party itself is in a fractious state. There are two groups Mr Brown must quickly come to terms with if his life is not to be made miserable.

The first consists of the Blairite ultras in the party and the government. Their mood is not vengeful in the way of Mrs Thatcher's defeated supporters, but their loyalty cannot be taken for granted. They still resent the way Mr Brown behaved towards Mr Blair, especially his tacit support for the attempted coup last September. They are also suspicious, probably more than they need be, about the depth of Mr Brown's commitment to some of Mr Blair's more talismanic policies, especially the reform of public services. Even those who hope Mr Brown will be a success, and will win the next election, doubt whether he will.

The decision last weekend of John Reid, the very Blairite home secretary, to support Mr Brown but not to serve in his government spoke volumes. It is possible that Mr Reid does indeed want to see more of his wife and his beloved Celtic football team. But it is also possible that he envisages a time, not too far ahead, when someone will be called upon to pick up the pieces.

Another group whose behaviour Mr Brown cannot predict are those Labour MPs who have got into the habit of rebelling against Mr Blair. John Major enjoyed a two-year honeymoon from rebellion in the run-up to the 1992 election, after which all hell broke loose. Mr Brown may have a similar period of grace, but if he doesn't, his chances of exciting the country with a brave new legislative programme will be swamped by acrimony.

Although he will not have lost sleep over it, a further unknown for Mr Brown is what it will be like no longer having Mr Blair around. Despite the tensions between the two men, for most of Labour's time in power they have met frequently in Mr Blair's office, usually alone. It is how much of the business of government has been transacted. However awkwardly at times, this government has been a partnership, and Mr Brown may well feel oddly alone when Mr Blair has gone.

Beyond party

For the other two main party leaders, Mr Blair's departure will also have consequences. For Sir Menzies (Ming) Campbell, the Lib Dems' increasingly beleaguered leader, the danger is that Mr Blair will take with him his own party's best issue for the past four years: opposition to the Iraq war. Squeezed by the Tories on greenery and civil rights, Sir Menzies will find it hard to map out ground that is both distinctive and attractive to Lib Dem supporters, who have already begun to slide away.

For Mr Cameron, however, the passing of Mr Blair from British politics is the opportunity he has been waiting for. Over the past few months, attacking Mr Blair has been a frustrating task for the Tory leader, partly because he often agrees with him and partly because Mr Brown was the real target. With Mr Brown at last in charge and Mr Blair gone, Mr Cameron can now complete the final part of his own metamorphosis.

The trick that Mr Cameron will attempt with ever more daring, like Mr Blair before him, will be to become a figure who soars above and beyond party. Mr Cameron's appeal will be not to Mr Blair's “progressives” but to all voters of decency, optimism and goodwill—what he will no doubt in due course call a coalition of the socially responsible. Should he succeed, a Tory victory is now there for the taking. And that may be the most important consequence of Mr Blair's going.

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Correction: Ann Cryer MP

May 10th 2007
From The Economist print edition

In an article in the April 28th issue we translated Ann Cryer, an MP, to London. We apologise for depriving her true constituency—Keighley, West Yorkshire—of her services.

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Muslims and the veil

The meaning of freedom

May 10th 2007 | ANKARA, CAIRO AND TEHRAN
From The Economist print edition

Reuters

In every corner of the Muslim world, female attire is stirring strong emotions

Get article background

IS THIS all because of me? At once bemused and indignant, the potential first lady of Turkey demands that her compatriots stop judging her, and her spouse, on the basis of her appearance. “My scarf covers my head, not my brain,” insists Hayrunisa Gul, whose husband Abdullah is foreign minister and aspires to be president.

Yet if there is one big reason why the candidacy of Mr Gul—whose elevation by parliament has been vetoed by a court, triggering a political crisis and an early election—sparks strong emotions, it is the silk fabric that frames Mrs Gul's expressive features. “I am a modern woman, I can hold my own with foreign leaders and their spouses,” Mrs Gul (pictured above with Queen Beatrix of the Netherlands) told your correspondent this week. Nor does the tall, loquacious mother of three—a more lively figure than any of Turkey's recent presidential spouses—favour a draconian regime of the Taliban kind. “I used to drive Abdullah to work and the children to school,” she says. “So I couldn't imagine living in a country where women cannot drive.”

But the challenge which Mrs Gul's apparel poses for Turkey's strict secularism is more than imaginary. Until now, neither she nor the wife of any other top politician in the ruling Justice and Development (AK) Party has been welcome in the chamber of parliament, the presidential palace or any military premises—because as devout Muslim ladies, they cover their heads. The idea of a scarved mistress of the presidential residence, guarded by soldiers trained to uphold secularism, delights some Turks and enrages others.

In almost every other part of the Muslim world, controversy over female headgear is growing. Turkey and Tunisia are at one end of the Muslim spectrum; both ban female civil servants, as well as students in state schools, from covering their hair. One Turkish judge was nearly assassinated after decreeing that teachers could not wear scarves even on their way to work. But in Saudi Arabia and Iran, the rules go the other way. No woman may appear in public with more than face and hands exposed.

Not even that was allowed in Afghanistan under the Taliban regime, which mandated the *burqa*, the most extreme form of female covering. In today's Iraq, meanwhile, a big fissure in the Sunni resistance movement pits al-Qaeda-minded thugs who want women to wear gloves and the *niqab* (which differs

from the *burqa* only in having slits for the eyes) and milder sorts who allow the simpler *hijab*, which covers hair and neck.

A clash over female attire is intensifying in neighbouring countries too. Just now, police in Iran are busy with their annual spring campaign against “bad *hijab*”, prowling parks and stopping traffic to enforce dress codes. This year's drive is the strictest for a decade. Thousands of women have received warnings; police cars have been parked outside shopping malls, scrutinising every customer; vehicles with improperly clad ladies at the wheel have been impounded. The crackdown, which also targets men in short sleeves or with extravagantly gelled hair, marks a reversal in a relative relaxation of dress codes which had occurred under President Mahmoud Ahmadinejad's regime. The *manteau*, or coat, which women are supposed to wear to hide the shape of their bodies has been getting shorter, as have the trousers underneath; and some women have sported jeans and lipstick under chadors covering their upper body.

Whether the current campaign will have any enduring effect on the determination of Iranian women (and fashion designers) to interpret the rules creatively remains to be seen. But there are many Muslim countries where rows over headgear have already taken a toll in blood.

In Pakistan last year, an assassin shot dead a provincial government minister, judging her gauzy head covering not Islamic enough. In January a clash between Tunisian police and Islamist rebels left 12 dead. The rebels said they were “defending their veiled sisters against oppression”, a reference to the fact that Tunisia's president dismisses the *hijab* as an alien form of “sectarian dress” and has sent police to toy shops to seize dolls with scarves.

Among most Muslims, who live between such extremes, two broad trends have emerged. One is a general movement towards more overt signs of piety, including “Islamic” attire. Within the past two decades, modern forms of head covering have become standard fashion in countries such as Egypt, Jordan, Malaysia, Morocco, Sudan and Yemen, replacing both traditional country scarves and the exposed coifs that were inoffensive to an earlier generation of city dwellers.

On the streets of Cairo, the Egyptian capital, headscarved women form a very visible majority. In the Egyptian countryside, where women used to work the fields uncovered, veils are now universal. Even gloves are not uncommon. Wearing the *hijab* is now so popular that it has ceased to be a statement, says Hania Sholkamy, an Egyptian anthropologist. “In fact, it is getting hard to shop for what used to be ordinary clothes,” she says. “Islamic dress is cheaper and more available.”

The other trend is an undercurrent of rebellion against sartorial rules of any kind. Trendy women in Saudi Arabia have taken to sporting slimmer-fitting *abayas*, while embellishing the traditionally black over-garment with bold strips of colour. The fact that Iranian authorities must still, 27 years after the Islamic revolution, forcibly impose dress codes suggests a persistent urge to challenge them. In cities as far apart as Damascus, the Syrian capital, and Casablanca, Morocco's commercial capital, some women accompany perfunctory head-coverings with heavy make-up, while others compete with the skimpy attire that is often seen in Arabic pop videos.

Yet the stern secularism of Turkey and Tunisia also meets resistance. Veiling, which a decade ago was confined largely to the tradition-bound poor, has made a middle-class comeback in both countries. In subtle defiance of a ban on scarves for official identity photos, some Turkish women erase their hair digitally and replace it with a wig-like substitute.

In less rigid Egypt, pious women have filed lawsuits against anti-veil rules imposed, for example, by state-run television networks. One judge overruled the ban applied by a private university against the face-concealing *niqab*, on the grounds that personal freedom counts more than the university's right to ascertain the identity of its students. When Egypt's culture minister casually told an interviewer that he personally considered veiling a backward practice, the ensuing public outcry forced him to recant. When its minister for religious affairs, who pays the wages of mosque preachers, stripped *niqab*-wearing employees of the right to preach, provincial bureaucrats declined to obey.

Different views on female apparel reflect differing readings of Islam's holy texts. One passage in the Koran, cited in support of the *hijab*, reads as follows: “Enjoin believing women to turn their eyes away from temptation and to preserve their chastity; not to display their adornments (except such as are normally revealed); to draw their veils over their bosoms and not to display their finery...”

A minority of Muslims would argue that female modesty does not necessarily imply covering one's head.

Another school cites oral traditions from the early Muslim community to insist that an ordinary *hijab* is not sufficient covering.

Egypt's grand mufti, under pressure to clarify the issue, obliged recently with two rulings. One stated that modest dress, including hair covering, is an Islamic duty. The other *fatwa* declared full-face veiling to be permitted—but not obligatory. That may satisfy some people, but it will not please either those zealots who think establishment clerics are too soft—or those devout believers who think God does not mind very much about their hairstyle.

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Economist.com WORLD INTERNATIONAL

Climate change

How to cool the world

May 10th 2007
From The Economist print edition

A new report on the state of the planet offers some grounds for optimism

THE Intergovernmental Panel on Climate Change (IPCC), the body set up under the auspices of the United Nations to produce a global consensus on the science and economics of climate change, reports once every six years. On May 4th, it published the third tranche of its fourth report. The first two tranches, on the science of climate change and its impact around the world, made for depressing reading. Climate change was getting worse, mankind was responsible, and most regions—especially the poorer bits of the world—were going to suffer. The third tranche, by contrast, was upbeat. Climate change may threaten mankind, but mankind has a good chance of averting it—if it puts its mind to it.

Some greenhouse-gas emissions, as the IPCC points out, can be cut at no cost at all—through straightforward measures such as improving insulation and binning wasteful incandescent light bulbs. Such measures could both save people and companies money, and save the planet from a chunk of carbon emissions. At present, they don't bother to do much, because electricity bills are not threatening enough; but governments might take a hand. The European Commission, for instance, is planning to ban incandescent light bulbs in two years' time. Such measures could make a difference, given that lighting accounts for 17% of global power consumption.

In other areas, low-carbon technologies would be more expensive than conventional ones—but not necessarily exorbitant. In power generation, for instance, the biggest single source of carbon, the cost of wind and solar power has fallen sharply over the past couple of decades to the point where, in favourable locations, wind power can compete, in price terms, with more conventional forms of energy. Better still, the cost is likely to fall further. Wind turbines are going to go on getting bigger, and thin-film technology is likely to bring down the price of producing solar panels.

Coal, as the IPCC recognises, remains a big challenge. It is enjoying a revival, partly because gas is expensive, and partly because coal supplies are widely distributed around the globe at a time when big energy consumers are keen to reduce their dependency on oil from politically volatile places such as the Middle East, Russia and Venezuela. Coal is the dirtiest fuel; but there are a number of projects to capture carbon dioxide emissions from coal and store them under the earth's surface. If that can be done on a large scale and at reasonable cost (a big if), it offers a quick fix for a sizeable proportion of emissions.

But to bring such technologies to market, the cost of generating energy from fossil fuels will have to rise or the cost of generating energy from clean sources will have to fall, or both. That can be achieved by taxing carbon or subsidising clean energy, or both.

Subsidies for clean energy are rising. George Bush, uncomfortable with anything that looks like a carbon tax and happy to pass round the pork, has been throwing money at companies investing in clean energy. Some European countries, such as Germany, have outdone him in their hurry to give taxpayers' money to renewables. Economists are uncomfortable with such measures, because history suggests that governments are bad at picking winning technologies; but these subsidies are certainly creating a demand for clean energy which should help bring down the price in the long run.

The more important question, though, is whether the world is prepared to tax carbon. Europe is the only major power that prices carbon. It does so through its Emissions-Trading Scheme (ETS). Polluters are given tradable carbon credits up to a set level, and have to buy more if they want to emit more. This scheme has established a carbon price—though, thanks to some cunning footwork by national governments and industries, which overestimated emissions and thus persuaded the European Commission to over-allocate credits, the price is currently close to zero.

That's not much use. The IPCC reckons that a carbon price of $20-50 by 2020-30 is needed to stabilise atmospheric greenhouse gas concentrations at 550 parts per million. That is a level which some (but not

all) scientists think reasonably safe: it would, says the IPCC, limit the increase in temperature to 2.8-3.2° C. To achieve this, it would have to be applied globally.

To tax, or not to tax

Europe's price is moving in the right direction. The European Commission, angry with national governments and industries which, in its view, pulled a fast one in the first phase of the ETS, has slashed national allocation plans for the second phase, in 2008-12. The 2008 price has therefore risen, and hovers not far below €20 ($27).

Even in the United States, there are signs of movement towards the idea of pricing carbon. California has legislated binding emissions reductions, which it plans to implement through a European-style cap-and-trade system. That means a carbon price. Threatened with the possibility of a patchwork of state-wide systems, many corporations have come to support the idea of a federal system. There is now a handful of competing bills in Congress that would legislate such a system; and most of the serious candidates for the 2008 presidential race agree with this idea.

Whether America would really accept a price on the level that the IPCC envisages remains far from clear. Another big uncertainty is how the developing world, wary of anything that would limit its entitlement to grow, could be persuaded to buy into this idea. Yet there are some grounds for the upbeat tone of the IPCC's report.

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International socialism

The people's flag is palest pink

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At the hustings, socialism can be a drag

AFP

Papandreou: dodging Ségolène's shadow

A FEW days before the French presidential election, Ségolène Royal received a rousing endorsement from her comrades in the pan-European left, delivered in the emotive terms that a socialist of the 1930s might have used to rally support for his cause in the Spanish civil war.

"What I have always seen in Europe is that the right wing favours the power of money and could not care less about the citizens," the visitor to France declared. Hence his rousing appeal: "I call on those of you who get up early in the morning, and those who get up late...please, do not trust Nicolas Sarkozy." This fiery fraternal message was brought to the barricades by Poul Nyrup Rasmussen, a former Danish prime minister, on behalf of the Party of European Socialists (PES), which groups centre-left movements from Norway to Bulgaria. The message was apparently ignored by voters, whatever their sleeping habits.

France's diehard ultra-leftists may argue that Ms Royal failed because she was not true enough to her revolutionary calling. But comrades in many other parts of the world may well draw an opposite conclusion: the very word "socialism", conceived amid the brutality of 19th-century industrialisation, may have become an electoral handicap in the 21st century.

Despite his rhetoric, Mr Rasmussen probably understands that as well as anybody. At a congress in Portugal five months ago, the PES—of which he is president—quietly changed its charter to embrace "progressive democratic" forces as well as socialist and Labour parties.

Another, possibly more significant move to jettison socialist baggage was made last month by Piero Fassino, a politician who has played a big role in the Italian Communists' long march to a position only millimetres to the left of the political centre. Having just forged a new "Democratic Party"—out of the ex-communist Democrats of the Left and the centrist Margherita (Daisy) party—Mr Fassino mooted the idea of a change of name, and spirit, for the Socialist International (SI), a hoary old bastion of the centre-left which now groups over 160 parties in countries ranging from New Zealand to Mongolia to Burkina Faso. In other words, the movement might start to call itself, say, the Social Democratic International.

Could it ever happen? The SI's current president is a Greek socialist, and former foreign minister, George Papandreou—a man with some experience of dragging stiff-necked socialists into the modern era. Formed by his father Andreas Papandreou whose feisty anti-Americanism placed him on the radical edge of European politics, Greece's Pan-Hellenic Socialist Movement, better known as Pasok, has turned into an advocate of worthy causes like European Union enlargement and the mending of fences with Balkan neighbours, including Turkey.

Since taking charge of the SI last year, Papandreou junior has cultivated better relations with America's Democrats, who even at their most radical, never use the S-word; and with India's ruling Congress party which has become less socialist over time. If anybody can transform the SI, it might be a man who can get along with stolid Nordic types—having spent formative years in Sweden—but also understands countries where for historic reasons "socialism" still resonates, such as Chile, the homeland of SI's secretary-general, Luis Ayala.

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Business in Russia

After Yukos

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From The Economist print edition

Reuters

The far-reaching legacy of the Yukos affair

Get article background

IT WAS the first “smart” office building in Russia, self-sufficient and stuffed with the latest technology, a showcase of Russian capitalism and built to serve as the headquarters of Yukos, the country's biggest oil company at the time. The pearl-tinged tower was insured against earthquakes, storms and floods. It was even insured against police raids—but, alas, not against political change. In April 2003, when the company moved in, someone counted the steps between landings: 13, an unlucky number. A few months later things started to go wrong.

This week Yukos's office building was the last of the company's main assets, after its production units, refineries and petrol stations, to be sold in a series of staged bankruptcy auctions. Most of Yukos has ended up with state-controlled Rosneft, now Russia's largest oil company, run from a low-rise office within shouting distance of the Kremlin. All that now remains of Yukos is a number of lawsuits filed by disgruntled shareholders demanding compensation from the Russian state. In a few weeks a clerk will cross out Yukos's name from an official register and Russia's first-ever private oil company will cease to exist as a legal entity. Rubbing out the stain that the destruction of Yukos has left on Russia's political and economic landscape, however, will take a lot longer.

At the very least, the Yukos affair changed the shape of the Russian oil industry, giving the state control over energy resources and doubling its share of crude output to more than 50%. But the legacy of Yukos's destruction goes beyond oil. If the emergence of Yukos epitomised Russia's transition from a planned economy to the wild capitalism of the 1990s, which for all its excesses thrived on private initiative, its destruction was a turning-point towards an authoritarian, corporatist state.

What triggered the attack on Yukos and its main shareholder, Mikhail Khodorkovsky, is still a matter of argument. Was it Mr Khodorkovsky's political ambitions, or his plans to sell a large chunk of the company to Exxon Mobil? Was it his intention to build private pipelines, or the cupidity of the new elite? It was probably all of the above. But what has become clear over the past four years is that Yukos's fate was sealed once Vladimir Putin became Russia's president in 2000.

“If the Yukos case had not happened, it would have to have been invented,” says Rory MacFarquhar, an executive director at Goldman Sachs in Moscow. The case partly reversed the legacy of the 1990s during which, through a series of mostly rigged auctions, control of natural resources passed from the discredited Communist party to a group of oligarchs supportive of Boris Yeltsin's regime. It was unusual by any country's standards. Mr Khodorkovsky, a businessman and former Young Communist League activist, was

one of the prime beneficiaries. His bank arranged the auction of Yukos and ended up as the sole bidder. Any potential rivals had been warned to stay clear and he got the majority of Yukos for a song.

The privatisations successfully dislodged the Communists from the commanding heights of the economy, but also created a lasting sense of injustice in Russia. So when Mr Khodorkovsky began to behave like an independent and legitimate owner of Yukos, negotiating its sale and financing the political opposition, Mr Putin was furious.

The president's desire to curtail the political and economic influence of the oligarchs was understandable. Mr Putin could have levied a windfall tax on the oligarchs, or renationalised the energy companies and compensated shareholders. Instead, he used the legal and tax systems to bankrupt a healthy company and pass the prize from one elite to another—this time, a group closely tied to the KGB, the Soviet Union's former security service.

Russian tsars often banished disloyal aristocrats who prospered under a previous reign and expropriated their wealth. What was new with Yukos was Mr Putin's pretence that all this was legal. That eroded democratic institutions and further discredited the law by using it as a political instrument. An attack late last year on Royal Dutch Shell (allegedly on environmental grounds) and an earlier economic blockade of Georgia, which was attributed to health regulations, were part of a pattern that began with Yukos.

After a bogus trial conducted by servile judges, Mr Khodorkovsky was sent to a Siberian prison camp and Yukos was broken up and pushed into bankruptcy through ever mounting back-tax claims. The figures did not add up. In December 2004 Yuganskneftegaz, the main production unit of Yukos, was sold in a rigged auction for $9.4 billion to a front company registered in a grocery shop in a provincial town, which was then bought by Rosneft. (When Rosneft came to float its shares on the London Stock Exchange, the same asset was valued at close to $60 billion.) The sums kept changing, but the formula stayed the same: the tax bill always ended up exceeding the value of Yukos's assets.

By the time Yukos's last assets were auctioned (undervalued by about 25%, says Al Breach of UBS, a Swiss bank) there was a sense of inevitability rather than outrage. Russian and foreign energy companies such as TNK-BP and Italy's Eni and Enel took part to ingratiate themselves with Rosneft and Gazprom, the gatekeepers of Russian resources. Big foreign banks bent over backwards to earn the Kremlin's favour. The government “left enough crumbs on the table” to keep foreign businesses happy, says Mr MacFarquhar.

High oil prices kept everyone quiet. They also meant that Russia felt no immediate pain from the destruction of Yukos. The management of state oil companies may be less efficient and less transparent than that of private firms, but when prices are high they still make a lot of money. Shareholders have filed lawsuits in international courts, claiming that Russia has violated the European energy charter to which it had signed up. Russia retorts that it never ratified the document.

Yevgeny Yasin, Russia's former liberal economics minister, argues that the Yukos affair has done enduring damage to Russia's long-term prosperity because it is harder to create wealth without property rights and the supremacy of law. The affair broke the rule of the oligarchs but resulted in a fusion of political and economic power, concentrated in the hands of the Kremlin. Its chiefs must think they are invulnerable. But so did the oligarchs and the Communists before them.

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Media deals

Down to the wire

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Dow Jones and Reuters are both on the block. Is Bloomberg next?

TWO big deals in the offing promise vastly different levels of entertainment. Rupert Murdoch's $5 billion bid for Dow Jones, a media group with assets including the *Wall Street Journal* and a respected newswire, has all the ingredients of a good potboiler: an ageing billionaire pitted against family wealth, concern over the future of an iconic newspaper and an insider-trading scandal thrown in for good measure. The planned £8.8 billion ($17.5 billion) merger between two financial-news providers, Thomson and Reuters, the details of which were outlined on May 8th, is a rather drier affair. But both are subplots in a bigger story still: the future of media.

News Corporation's pursuit of Dow Jones is off to a sticky start. Members of the Bancroft and Ottaway families, which between them own a majority of Dow Jones's voting stock, have come out against Mr Murdoch's offer. They can hardly complain that the bid price of $60 per share is ungenerous. Instead, the families' objections have more to do with Mr Murdoch's perceived populism, editorial meddling and rapacity. So he will not thank another rich and wrinkled investor, Warren Buffett, for his observations on Dow Jones's unfulfilled potential. “It's like a eunuch that owns the world's greatest harem,” opined Mr Buffett. “He doesn't get a lot out of it.” Mr Murdoch's task is to persuade shareholders that his intentions are more honourable than that analogy implies.

In contrast with News Corp's sally for Dow Jones, many of the thorny details of the proposed tie-up between Reuters and Thomson, the second- and third-largest providers of financial data respectively, have already been worked out. Thomson plans to pay a mixture of cash and shares to buy Reuters. The combined entity, to be called Thomson-Reuters, will maintain dual listings in Toronto and London. Tom Glocer, Reuters' well-regarded boss, will take the helm, but the Thomson family will own a controlling stake.

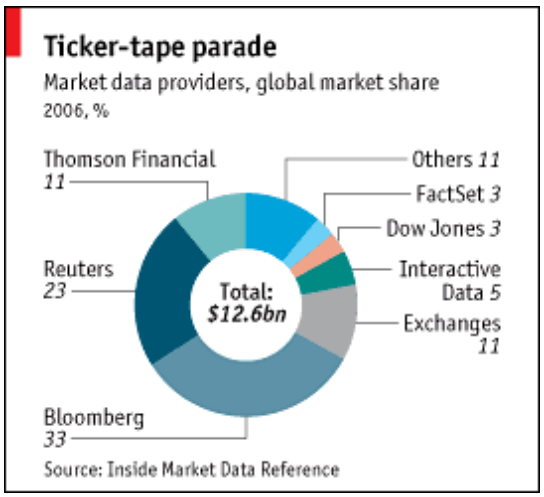
Reaction to this deal has been largely favourable. The two companies have complementary businesses. Thomson is strong in North America and fixed-income products, whereas Reuters makes more of its money in Europe and Asia and from foreign-exchange and equity traders. Thomson's other businesses, in areas such as legal publishing, provide the combined company with a hedge against a downturn in the financial sector. The two firms say they can unlock synergies of $500m; Paul Richards of Numis, an institutional broker, thinks that may be conservative. A deal could even help Mr Murdoch, if Thomson-Reuters were to drop Dow Jones's newswire from its own service, weakening Dow's position and hence making News Corp's offer more attractive.

For the moment, Reuters' share price continues to hover well below Thomson's bid price of 697 pence a share, thanks to the blocking power of two groups. Efforts are underway to win over the Founders Share Company, a private company set up to safeguard Reuters' editorial independence that has the voting power to block the merger. Regulators could also stymie the deal. Between them, Bloomberg, the market leader today, and Thomson-Reuters would control 67% of the market for financial data (see chart). According to Kate Worlock of Outsell, a market-research firm, Thomson's experience in getting a similar merger with West, a legal publisher, past America's competition authorities in the 1990s could prove useful.

Given the obstacles that each deal faces, might other bidders step in? Both News Corp and Thomson will be difficult to outmanoeuvre, one because of its high initial bid and the other because of the cost savings it can quickly reap. But Dow Jones and Reuters are attractive for reasons that resonate throughout the wider media industry. Both cater to business users, who like consuming media electronically and are willing to pay a premium for useful information. To varying degrees, both are insulated against volatility in the advertising market through subscription-

based revenues. And both are skilled at spinning raw content into informational gold, through high editorial quality, speedy delivery and clever packaging of information.

These, incidentally, are all attributes shared in spades by Bloomberg, which may yet also go on the block. Michael Bloomberg, the company's founder, has said in the past that he intends eventually to sell the company. Now that he knows the sort of price tag that Reuters commands, might he be tempted to cash in?



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Building materials

Concrete plans

May 10th 2007 | BERLIN
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Will Germany's HeidelbergCement make a bid for Hanson?

EVEN by the standards of Germany's secretive tycoons, Adolf Merckle is a private man. Not much is known about the septuagenarian billionaire from Blaubeuren, a town in southern Germany, who controls a business empire ranging from Ratiopharm, a generic-drugs company, to Kässbohrer, a maker of all-terrain vehicles, except that he runs a tight ship with a small group of confidants. One of them is Bernd Scheifele, whom he installed as boss of HeidelbergCement after Spohn Cement, another of Mr Merckle's companies, took control of the world's fourth-biggest cement-maker two years ago.

Mr Merckle wanted Mr Scheifele to make HeidelbergCement more profitable and transform it into an industry giant. So far he has concentrated on the first of those tasks. On May 9th at the firm's general meeting he announced that profit in the first quarter of the year had increased to €109m ($143m) from €29m in the same period last year, thanks largely to restructuring. But Mr Scheifele did not say anything about his plans for Hanson, a British building-materials group, beyond repeating a statement made five days earlier that HeidelbergCement was reviewing its options. Buying Hanson would catapult the firm into the industry's big league, dominated by France's Lafarge, Mexico's Cemex and Holcim of Switzerland.

“HeidelbergCement is very likely to bid for Hanson,” predicts Arnaud Pinatel, an analyst at Exane, a French broker. At about £7.5 billion ($15 billion) Hanson would come at a high price, but strategically the deal would make a lot of sense. Hanson is the biggest maker of aggregates—the sand, gravel and crushed stone that are mixed with water and cement to produce concrete. If HeidelbergCement were to buy Hanson it would become a vertically integrated company, just as Lafarge, Holcim and Cemex have over the past decade.

This would provide economies of scale and the security of in-house supply. Lafarge was the first of the big cement-makers to make such a move, taking over Redland, a British quarry firm, ten years ago. In 2004 Cemex took over RMC, a British concrete group. In 2005 Holcim bought Aggregate Industries, a British aggregates firm. And Cemex is now putting the finishing touches on its $14 billion takeover of Rinker, an Australian construction group.

Rivals are unlikely to rush to bid for Hanson at today's price. (Its share price has doubled in the past 18 months.) An offer by Holcim would probably run into trouble with antitrust watchdogs in Britain; Cemex is busy with the integration of Rinker; and Bruno Lafont, Lafarge's boss, says he is focusing on internal growth and fast-growing emerging markets, rather than Britain and America, Hanson's main markets.

Hanson's presence in America, which accounts for nearly half its sales, is Mr Scheifele's main concern. The market is tough because of the darkening economic outlook, the weak dollar and the housing slowdown. But in 2005 Congress approved a roads bill which pledged to spend $286 billion on infrastructure by 2011. That is a lot of concrete. And despite the developing world's construction boom, America is the most profitable market.

HeidelbergCement might find Hanson hard to swallow. Standard & Poor's may downgrade its credit-worthiness if it bids for Hanson. HeidelbergCement could use the estimated €1.4 billion from the planned sale of its stake in Vicat, a French building-materials firm, to help pay for the acquisition. But a sale of some of Hanson's Asian and Australian assets after the takeover seems more likely. So will HeidelbergCement make a bid? Hanson is one of the few available aggregate-makers in a consolidating market. And when Mr Merckle sets goals for his companies, he does not like to be kept waiting.

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Aluminium

Hunter or hunted?

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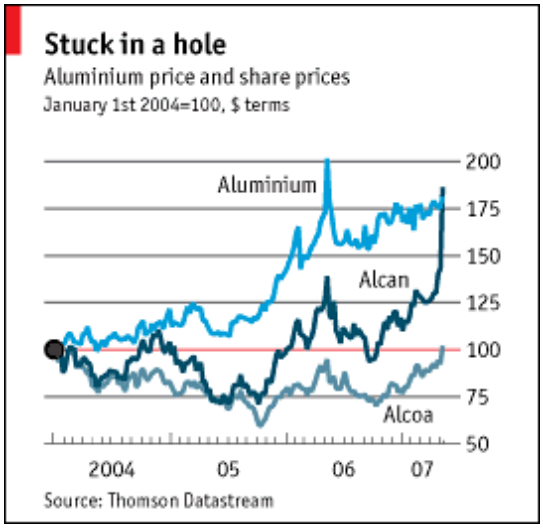
A proposed aluminium merger may not go as planned



"YOU have to be bigger than the hole you can fall in." With those words Alain Belda, the boss of Alcoa, justified his firm's $27 billion bid this week for Alcan, a rival aluminium producer. Earlier this year RUSAL and SUAL, two Russian firms, merged in a deal that displaced Alcoa as the world's biggest aluminium company. The Alcan deal would restore Alcoa to the top spot, with roughly a fifth of the world's output.

Increased scale would help Alcoa and Alcan cut costs and win back customers from Russian and Chinese competitors, Mr Belda argues. It would also help the combined entity to weather any problems at new facilities being built in distant and unstable countries. Investors appear to agree with his reasoning. On news of the bid, Alcoa's shares jumped by 8% and Alcan's soared by 34%.

That makes a happy change. In recent years Alcoa's share price has lagged behind Alcan's and the price of aluminium (see chart). Recent announcements that the firm would buy back shares and sell some divisions generated much less excitement. But the bid faces several obstacles. Although Alcan's board has said it will consider the offer, it might prove resistant. The two firms discussed a friendly merger last year but were unable to agree terms. Regulators might also scupper the deal. After all, Alcan owes its existence to an antitrust action in the 1920s that forced Alcoa to spin off its non-American business. Mr Belda hopes that selling a few assets will satisfy regulators. But they are certain to give the deal thorough scrutiny.

The Canadian authorities, in particular, will be reluctant to approve the takeover of Alcan, the country's biggest metals firm and a national icon. Alcoa's management is bending over backwards to please the province of Quebec, where Alcan has its headquarters. Mr Belda showed off his fluent French while promising that several of the merged firm's divisions would be run from Montreal. But politicians are already harrumphing.

The biggest threat is that another firm will make an offer for Alcan or try to buy Alcoa itself. Big mining firms are awash with cash thanks to high metals prices. The price of Alcan's shares has risen beyond the offer price, implying that investors expect Alcoa to sweeten its bid or another firm to enter the fray.

Alcoa is seen as a possible takeover target because of its weak performance. Some shareholders say it should put itself up for sale. Last year Phelps Dodge, an American mining firm, announced plans to buy two smaller rivals. But other firms snapped up its would-be acquisitions and then Phelps Dodge itself. Mr Belda may yet avoid one hole, but fall into another.

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Aviation in China

Up in the air

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Open skies are needed if China wants its aviation industry to thrive

“WE NEED policy reform,” declared one speaker after another at a conference in Beijing last month. They were not talking about property rights, environmental policy or pensions, but about airspace. China has a booming civil-aviation industry but is lagging behind in the field of “general aviation”—in other words, allowing things other than commercial airliners and military aircraft into the skies. General aviation covers crop dusters, corporate jets, single-engine training aircraft and cargo aircraft, among other things. Although civil aviation accounts for the bulk of air passengers worldwide, general aviation accounts for most of the flights.

General aviation is important because it underpins other forms of aviation by providing a non-military arena in which to train the pilots and technicians needed by airlines. It helps to develop infrastructure, as small airfields are set up in smaller and remoter cities, allowing for more efficient point-to-point transport. As traffic levels increase, such point-to-point flights are less prone to bottlenecks than classic hub-and-spoke systems. General aviation also enables helicopter rescue and ambulance services, air taxis and easier maintenance of power lines, pipelines and other infrastructure in far-flung places.

But things are still at a very early stage in China, which accounts for less than 1% of the world's general-aviation fleet. There were just over 1,000 departures of private aircraft from Beijing's airports last year, compared with 60,000 from New York, 25,000 from Moscow and over 3,000 from Dubai. Several factors are getting in the way. There is a 21% tax on imported aircraft, for those who do not like the look of Chinese-built machines. With most airspace under military control and little spare capacity in civilian airspace, getting permission to fly means applying up to five days in advance, which rather undermines a big reason for owning a private jet, namely greater flexibility. And there are very few “fixed based operators” (FBOs), the service centres based in airports that maintain and operate private aircraft, often on behalf of individual owners.

That said, it is possible to run a private plane in China. That much is proved by Jean Chalopin, a French film producer best known as the co-creator of “Inspector Gadget”. Mr Chalopin, who lives in Beijing, claims to be the first owner-operator to fly a foreign-registered aircraft in China. He flies his private jet, a Citation 650, between various Chinese airports. Having worked out how to navigate the bureaucracy, he hopes to set up a fractional-ownership scheme in the next few months.

The government's plans to promote general aviation are unclear. But Donald Spruston of the International Business Aviation Council, a lobby group, told last month's conference that something needed to happen before next year's Olympics. The new Beijing FBO, the largest in the world, will be completed this year. But the problem of limited airspace remains. One proposal, rumoured to be under consideration for later this year or early 2008, is to set up “pilot programmes” of open airspace at low altitudes in a few provinces, to test policies. But the government has yet to announce anything.

Without the opening up of airspace, general aviation in China faces a chicken-and-egg problem: the lack of infrastructure on the ground limits the prospects for growth, but without more flights there is little reason to invest in such infrastructure, or in training schemes for pilots and technicians. In the long term, however, aircraft manufacturers reckon that China will be a promising market. CITIC, China's largest state-owned investment group, ordered a Falcon 900DX private jet from Dassault Falcon Jet, a French manufacturer, in 2005 and will take delivery later this year. Dassault hopes this will encourage other Chinese companies to buy business jets in the coming years.

Edward Smith of the General Aviation Manufacturers Association told the Beijing conference that as an economic power, China “will require the tools of a modern global economy to remain competitive.” General aviation, he added, “is one of these tools.” Aircraft-makers and Chinese millionaires alike are eagerly waiting for the government to act.

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Aviation

A new operating system

May 10th 2007
From The Economist print edition

A technology entrepreneur plans a novel air-taxi service

“THIS is a software and technology business that happens to deliver air travel,” says Ed Iacobucci. He is the boss of DayJet, a firm based in Florida that has ordered more than 300 of a new category of aircraft known as very light jets (VLJs). Mr Iacobucci, the co-founder of Citrix Systems, a software firm, admits that many in the aviation industry think that what he is up to is all “voodoo and black magic”. But he believes it will herald a whole new way of flying.

Even the smallest eight-seat private jet costs upwards of $10m, but the new VLJs are priced at around $1.5m-3m and cost much less to run, too. VLJs are being developed by a number of firms, including familiar aircraft-makers such as America's Cessna and Brazil's Embraer, and newcomers such as Japan's Honda, which has set up a plant in North Carolina to build what it calls the HondaJet.

Mr Iacobucci has plumped for one of the smallest VLJs, being made by Eclipse Aviation, a firm based in Albuquerque founded by Vern Raburn, a former Microsoft executive. The Eclipse 500 is about the size of a sport-utility vehicle and can cruise at 685kph (430mph) with a range of just over 2,000km. In the configuration ordered by DayJet, it will carry two pilots and three passengers.

The arrival of low-cost small jets provides new opportunities for air-taxi and charter operators. But DayJet does not see itself in either category. It plans a “per-seat on-demand” service. Customers will book seats online just as they do with an airline, except there will be no schedules. Instead, you will pick where you want to go, when you want to arrive and how early you are prepared to travel. The greater your flexibility, the cheaper the fare. Passengers are told the take-off time the day before departure.

Drawing up a profitable flight schedule is hugely complex, since each new booking means recalculating everything. “The problem turns out to be one of logistics and mathematics,” says Mr Iacobucci. He aims to solve it with clever software, and to start operations in Florida in June. As its network grows, DayJet's software will detect travel patterns to refine its seat-pricing algorithms. The aim is to have three passengers on board every flight. Compared with ordinary air travel, that is hardly a crowd.

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Flowers

Petal power

May 10th 2007 | NAALDWIJK
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Competition is transforming the buying and selling of flowers

A BUNCH of flowers can appear beguilingly simple, but it is a miracle of distribution. Its delicate blooms may have grown on farms scattered around the world, yet they arrived at your local florist within days of harvest. Along the way, crowded with millions of others, your stems may have been part of the endless parade under the fluorescent lights of the Dutch flower auctions.

AFP

Now that's a bunch of flowers

Run by co-operatives of local growers, the auctions embody logistical virtuosity. Each lot of flowers—30% of them grown abroad—is unpacked, placed in buckets of water, wheeled under an electronic clock before a gallery of bidders, and then packed up again and shipped to its new owners, all before 9am each day. Over 17m stems are sold each day beneath the 39 descending-bid clocks at FloraHolland and Bloemenveiling Aalsmeer, the two biggest flower auctions. Jacques Teelen, boss of FloraHolland, boasts that within 36 hours a flower can reach any florist in Europe.

Late last year FloraHolland and Bloemenveiling Aalsmeer announced their intention to merge. The new entity, to be known as FloraHolland, would be by far the largest flower marketplace in the world. In 2005 the two firms sold more than 12 billion flowers and plants and had combined sales of $4.6 billion. Encompassing more than 98% of the Netherlands' flower business—and nearly one-seventh of the global trade—the proposed deal has attracted the attention of the Netherlands Competition Authority, which will decide this summer whether to allow it. Mr Teelen admits that winning approval will be difficult, but says the merger is “strategically necessary”.

Before the second world war, cut flowers were grown near markets. Later, improved varieties and better transport allowed growers in southern Europe, Israel, and parts of Africa and South America to supply northern European and American markets. What was once a seasonal business was transformed into a year-round industry: roses became a Valentine's Day fixture. And Dutch firms took on a special role as their norms for everything from bucket sizes to environmental certification were adopted worldwide.

But as new competitors emerge in other parts of the world, the Netherlands' flower auctions need to team up in order to compete, Mr Teelen believes. Flower centres are emerging in Dubai, Tel Aviv, Kunming and elsewhere—many of them closer both to producers and to promising new markets. And big retailers such as Wal-Mart and Tesco have started buying flowers directly from tropical growers.

Even so, the auctions still serve a useful purpose by providing transparency in pricing, says Amy Stewart, who surveyed the industry in a recent book, “Flower Confidential”. Price discovery at the auctions helps the entire industry, she adds, yet it could be more efficient. As a result, she says, “the merger makes a lot of sense.”

It could also help the Dutch firms to maintain their position as the buying and selling of flowers goes virtual. Around 80% of the stems sold at auction are exported from the Netherlands, so the Dutch co-operatives have been experimenting with a response obvious to traders in other markets: 15% of auction turnover at Bloemenveiling Aalsmeer is now through remote bids, and FloraHolland is testing video auctions of potted plants.

Why should chrysanthemums grown in Thailand travel to the Netherlands on their way to the Japanese market? FloraHolland already supports settlement in Kenya and other big producing countries, taking advantage of its reputation for quality control and reliability (sellers are paid within ten days and physical custody of the flowers ensures delivery to buyers). Almost one-third of FloraHolland's turnover is brokerage between big buyers and sellers, bypassing the auctions.

What is happening, in short, is “a disconnecting of the commerce and the logistics,” says Mr Teelen. So the proposed merger should make cost savings possible through systems integration, says Eric van Heck, a professor at RSM Erasmus University in Rotterdam who studies virtual auctions. But competing virtual flower auctions are already operating, and the changing structure of the trade, with big purchasers buying on longer contracts, presents opportunities that the conservative Dutch co-operatives may fail to exploit. A futures market, for example, would enable growers and buyers to reduce risk by hedging, though it would also complete the unromantic commoditisation of the rose. But Mr Teelen says FloraHolland has no plans to provide such services.

“The transformation from marketplace to marketspace is not easy,” says Mr van Heck. He warns that the merger could initially slow down the Dutch firms and weaken their position. Whether or not regulators allow the deal to go ahead, the Dutch firms' supremacy cannot be taken for granted. Greater competition means the bloom could easily go off the rose.

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Face value

Out-Googled

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AP

Is Terry Semel the right man to lead Yahoo! against its nimbler rival?

JERRY YANG, who co-founded Yahoo! and remains on its board, says that the internet company is in the middle of a “transformation” and that its board members are “all in lockstep” behind Terry Semel, the chairman and chief executive. Meg Whitman, the boss of eBay, a Silicon Valley neighbour as well as an advertising partner to Yahoo!, says that Mr Semel has done “a spectacular job” and is “well loved at Yahoo!”. Clearly, Mr Semel has a lot of impressive supporters.

He may need them now. Mr Semel became Yahoo!'s boss six years ago this month, after a long and distinguished career in Hollywood, where he ably led Warner Brothers, a film studio. He had a good start at Yahoo!, turning losses into profits, although some of the credit for this was down to timing: he arrived during the trough of the dotcom bust, when the online advertising market was just about to recover. Of late, however, Mr Semel has been taken aback by the astonishing rise of Google, which today dominates the market for web-search and keyword-related advertising, having left Yahoo! far behind. His fate at Yahoo! now depends on whether it can catch up with its more agile rival.

Increasingly the view on Wall Street is that Yahoo! by itself cannot catch Google, so it must either merge with a compatible partner—eBay has been mentioned—or, more likely, sell itself for the highest possible price to Microsoft, a software giant that has fallen even further behind Google in its web business. Yahoo! and Microsoft have been talking, off and on, since last year.

This union of two also-rans against the winner has a clear logic. Microsoft once licensed Yahoo!'s search and advertising technologies (Inktomi and Overture, respectively) before building its own, so the technical integration ought to be feasible. Both Microsoft and Yahoo! have far more users than Google does in services such as web-mail and instant-messaging, and together would be formidable. However, melding the two firms and their cultures would distract the new company for at least a year, during which Google might speed ahead even further.

For Mr Semel, who is 64, a sale might also hold the appeal of a graceful exit. It would be a rueful one, however. Back in 2002 Mr Semel considered buying Google, which was just then rising out of obscurity, but balked at a price in the single billions (Google's stockmarket value today is $145 billion, about 3.5 times that of Yahoo!'s). Having belatedly grasped the money-making potential of web-search, Mr Semel then bought Inktomi, another search engine, and in 2003 he bought Overture, the pioneer of paid-search advertising.

But Inktomi and Overture languished ignominiously inside Yahoo!, which Mr Semel was simultaneously trying to turn into a new sort of media company. With much fanfare, Mr Semel even opened a Hollywood branch—in Los Angeles under Lloyd Braun, an old-media star—to produce content. This turned out to be a misreading of industry trends, so Mr Semel soon switched the emphasis towards “user-generated content” and, during a corporate reshuffle this winter, closed his Hollywood branch and bade farewell to the hapless Mr Braun.

During all this, Google was outmanoeuvring him not just technologically but also strategically. Mr Semel was at one point talking to his old-media friends at Time Warner about buying AOL, its web portal and a natural fit. But Google swooped in and took a defensive equity stake. Mr Semel was interested in YouTube, a video site built on user-generated content, but Google bought it instead. He wanted a social-networking site, but couldn't capture Facebook and lost an advertising deal with MySpace to Google. He wanted to buy DoubleClick, a firm that specialises in online display advertising, where Yahoo! is the leader, but Google again pre-empted him. So Mr Semel has had to content himself with consolation prizes. Last month he bought Right Media, a display-advertising firm far smaller than DoubleClick. In search advertising, Yahoo!'s weakest area, he has launched Panama, a new system for placing text advertisements that appears to be as good as Google's in drawing mouse clicks and thus money, and which is Yahoo!'s greatest hope.

The odd man out?

The question for Yahoo!'s shareholders, and thus its board, must be: is that enough? “First you have to get to parity before you leapfrog,” says Ms Whitman, in defence of Panama as well as Mr Semel. (A leapfrog may seem unlikely, given Google's reputation as an innovator, but its diversification into so many fields beyond web-searching might yet cause it to stumble.)

The view among the engineers of Silicon Valley is different from Ms Whitman's. They see Mr Semel as the odd man out in their industry. Google is led by esteemed computer scientists: its founders, Sergey Brin and Larry Page, and chief executive, Eric Schmidt. Microsoft has Bill Gates as chairman and Ray Ozzie, a titan of engineering, as software architect. Mr Semel, by contrast, was a Hollywood dealmaker who did not use e-mail before his arrival at Yahoo! in 2001. He has learnt a great deal about technology since then, of course, but an online-advertising entrepreneur, who deals with all three firms, says that Mr Semel still does not know enough “to go deep with the innovators”.

Instead Mr Semel, charming and funny in private, increasingly resorts in public to pre-cooked, vague grandiloquence laden with the jargon of “Web 2.0”. The founder of another online-advertising company, who counts Yahoo! as his biggest customer, even compares him to Chance, the character played by Peter Sellers in the 1979 film “Being There”. Chance is a gentle gardener whom fate thrusts into the high society of Washington, DC, where he is mistaken for a profound genius as he regurgitates gardening phrases that he has heard on television (“In the garden, growth has its seasons”). In Chance's case, however, the doubters kept quiet. Mr Semel's critics are getting noisier.

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Business schools

New graduation skills

May 10th 2007 | BOSTON, LONDON, NEWHAVEN, NEW YORK AND PALO ALTO
From The Economist print edition

Getty Images

As business schools start to teach more ethics and practical skills, enrolments are climbing again

Get article background

"TOYOTA would have been proud of our just-in-time implementation," claims Joel Podolny, dean of the Yale School of Management—surely the first time the head of an academic institution has, without a hint of irony, used a factory-floor metaphor for speed and efficiency to describe his ivory tower. In March 2006 the faculty voted to change its MBA curriculum fundamentally. By September they were teaching it.

Instead of the well-worn method of teaching functional subjects, such as marketing, strategy, accounting and so forth, students who are now completing their first year at Yale are taught with eight courses that each address different themes, such as the customer, the employee, the investor, competitors, business and society, and innovation.

Yale has gone further than any Ivy League business school in shaking up its curriculum, but it is not alone in making changes. Stanford's Graduate School of Business, which many reckon is second only to Harvard Business School (HBS) among the elite of the global schools, will introduce sweeping changes in September. Indeed, most of the leading American business schools, including HBS, have upgraded their courses by some level since 2002. That was the year when the business of business education looked to be heading for trouble.

Five years ago, business schools, particularly in America, came under attack from all sides. Fairly or not, they took some of the blame for the corporate scandals that erupted at firms such as Enron and WorldCom. Jeffrey Skilling, the former boss of Enron, was a star of the HBS class of 1979. Other corporate villains and their lackeys have boasted MBAs. Many agreed with one commentator that the only way to solve the ethical problems of corporate America was to fire everyone under 35 with an MBA.

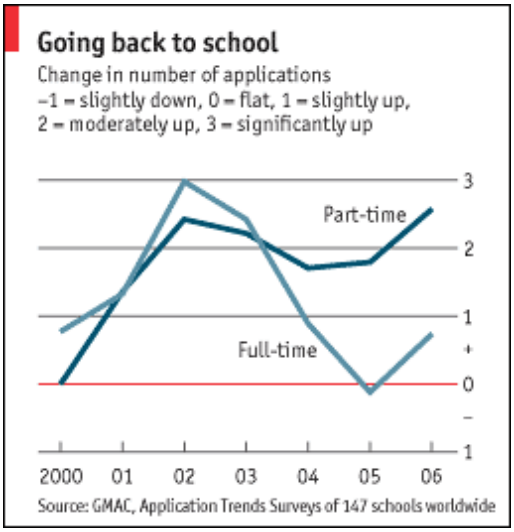
Such criticisms unleashed a flood of concern, much of which had been building up for years. The value of the schools' main product, the MBA, was in doubt. It became fashionable to argue that the most useful thing a business school, particularly a top one, does for its students was to confer on them its stamp of approval by letting them in. Anything they might learn while they are there was a bonus.

An MBA had been supposed to reward its holder with an increase in lifetime career earnings. But some studies suggested the costs of getting one were justified at only a handful of the top schools. Henry Mintzberg, a Canadian management scholar, has long claimed that the MBA was too narrowly academic and did not teach much that was of any practical use.

And so it continued. In an article published in 2005 the late Sumantra Ghoshal, of London Business School, argued that what was taught was practical, but in the wrong way. By focusing almost to the exclusion of all other behavioural models on “agency theory”—which assumes that executives are the self-interested lackeys (“agents”) of shareholders, driven by maximising their self-interest—business-school teachers had freed their students from “any sense of moral responsibility”.

In an article in the *Harvard Business Review* in 2004, Warren Bennis and James O'Toole lamented “How Business Schools Lost Their Way”. Jeffrey Pfeffer, a Stanford business school professor, and Christina Fong surveyed the literature and concluded their article, “The End of Business Schools? Less Success Than Meets the Eye”, with the claim that if business schools did not act quickly enough they could face a “substantial and growing threat to their continued prosperity, if not to their very existence.”

As if to prove it, business school customers seemed to vote with their feet and applications for MBA courses began to dip (see chart). Graduating MBAs also experienced great difficulty in finding work—which, after all, was the main purpose of going to business school. Tuck Business School, for instance, was typical in reporting that only 90% of the class of 2003 had received a job offer within three months of graduating, a much smaller share than usual.



Back in business

Today the mood in business schools is a lot happier, and not just in America but also in other countries, which now boast more business schools and many more MBAs than ever before. Applications have recovered strongly and the salaries offered to business-school graduates are rising again, as is the share of graduates from the class of 2007 who have already secured their desired job. Tuck is now confident that it will improve on last year's best-ever placement record of 98% of students with a job offer within three months of graduation.

Indeed, Paul Danos, dean of Tuck, reckons that the downturn “had nothing to do with management education” and everything to do with the economic cycle. “All of the statements about the basic model not working are wrong. The vast majority of students say that this is the best educational experience they ever have,” he claims. And to reinforce the point he adds: “Our students are too demanding to accept being taught irrelevant things.”

Well, maybe. But a recent survey by Egon Zehnder, a recruitment firm, found that only one in five of the international corporate executives it polled thought that an MBA prepares people for real-life management. When Yale's Mr Podolny became dean in July 2005 he found “a growing disconnect between how business is taught and how careers are developing”.

Mr Podolny reports that students are now much more enthusiastic about what they are taught at Yale and that applications have soared this year, to 2,798 from 1,998 three years earlier. Some of the other schools dismiss this as a sign that Yale is putting behind it years of under-performance rather than evidence that business schools need an overhaul.

Yet a striking number of business schools have changed their courses in the past few years. Although HBS, which invented the MBA, is continuing its familiar case-study method of teaching, it has introduced a popular new course in “leadership and accountability”. Post-Enron, most business schools have introduced or have beefed up their teaching of ethics, often under the banner of leadership. However, a lively debate now rages about whether this is best done separately or as a part of every subject.

Nor is it clear that ethics are easily taught. A revelation that 34 MBA students at Duke University's Fuqua Business School cheated in a take-home test seemed to confirm a study released last September by Donald McCabe, a professor at Rutgers University. This found that some 56% of graduate business

students in America admit to having bent the rules, a higher share of cheats than in any other group of students. Alarmingly high cheating rates were also reported by students of engineering (54%), education (48%) and, perhaps inevitably, the law (45%).

The other big change is an attempt to make business education more practical. Most of the critics of earlier MBAs condemned their increasingly abstract, academic content. This has its roots in studies into business education which were carried out in 1959 and financed by the charitable Carnegie Corporation and the Ford Foundation. These studies argued that business schools had in effect become trade schools, in which “most professors were good ole boys dispensing war stories, cracker-barrel wisdom, and the occasional practical pointer.”

In response to this criticism, business schools enthusiastically embraced academic rigour. This, the critics say, now seems to command a higher priority than teaching useful things to students. Business-school faculty members often seem to place greater weight on winning the approval of peers in their academic discipline than on gaining the approval of their business-school colleagues. Even getting papers into a general business publication, such as the *Harvard Business Review*, rather than an academic journal can damage the career of a promising professor.

Yale's reforms are the most extreme attempt to break the faculty out of its academic silos. To rewrite the curriculum, weekly meetings of multidisciplinary teams discussed what each subject could bring to a course. According to Mr Podolny, “most faculty in other places don't know what other members are teaching in their courses. No other faculty is so well informed about what is being taught across the curriculum.”

Real problems

Many schools are trying to increase the practical side by giving a greater role to business, including inviting business people to speak to students. Whether they impart more than cracker-barrel wisdom is unclear. A growing number of business schools are teaching the long-neglected subject of entrepreneurship. Northeastern Business School has been working with the 20 or so firms that employ the bulk of its graduates to ensure that its courses give students the skills their future employers need. At Pepperdine, students have been attempting to solve real marketing problems brought to the school by companies including Coca-Cola, Disney and Raytheon. This has been so successful that it will now become a separate course and extend beyond marketing, says Linda Livingstone, Pepperdine's dean.

Insead, one of Europe's leading business schools, has long had closer ties than most to business. In December 2005 it hired a businessman, Frank Brown, as its dean. Mr Brown had spent 26 years working with PricewaterhouseCoopers. “A lot of our faculty have outside business experience and sit on boards,” says Mr Brown. “The decision to bring me in, as a total business person, suggests we are pretty well committed to meeting the needs of business.” In November last year London Business School also brought in a consultant as its new dean: Robin Buchanan of Bain & Co.

By teaching ethics and becoming more practical, business schools may be going back to their roots. As Rakesh Khurana of HBS points out, many schools saw their founding mission to professionalise the management of business, much as medical and law schools had institutionalised their disciplines. According to Mr Khurana, whose book on the history of HBS is about to be published to mark its centenary next year, professions have at least four elements: an accepted body of knowledge; a system for certifying mastery of that knowledge before it can be practised; a commitment to the public good; and an enforceable code of ethics.

It is hard to imagine managers being required to present certificates before they can give orders, or even that it is desirable. After all, some of the best business people, including Bill Gates, dropped out of university or never went to business schools. Similarly, a binding code of ethics seems an unlikely prospect. However, more professionalism would surely be welcome.

Glenn Hubbard, the dean of Columbia Business School, thinks that business schools have for several decades been the heart of the university, much as theology schools were in centuries past. They are where academic theory and the practical world engage with each other. There is a lot of curriculum change and innovation, he says. However, “this is not an industry responding to crisis but a competitive response of a healthy industry trying to get its product better.”

Whatever the reason for change, there is a genuine debate about how far change should go, how quickly

it should happen and whether all schools should take part. One problem is the shortage of talent available to provide the blend of academic excellence and practical insight that everyone wants. Laura Tyson, the former dean of London Business School, says the greatest task for business education is “filling the pipeline of the faculty”.

Some things, however, may forever remain beyond the reach of all reformers. In a critical book about business education published in 1999, Stuart Crainer and Des Dearlove described the “Wharton Walk”, in which students visit ten bars in a single night. Their shocking conclusion? “This is what happens in business schools. Most students simply get drunk.”

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The global merger boom

The beat goes on

May 10th 2007 | NEW YORK
From The Economist print edition

Satoshi Kambayashi

Feeling a sense of déjà-vu about the current takeover frenzy? It's different this time—but only up to a point

Get article background

LAST year, as global merger activity breached the giddy levels of the dotcom era, markets partied like it was 1999. The bankers and lawyers who work on deals braced themselves for hangovers. But instead, glasses were refilled, the music cranked up and the guests were invited to dance through the night. Some $2 trillion of deals have been unveiled so far this year, putting it on track to smash the record set in 2006 by a whopping 60% or more. That would exceed even the rosiest predictions on Wall Street.

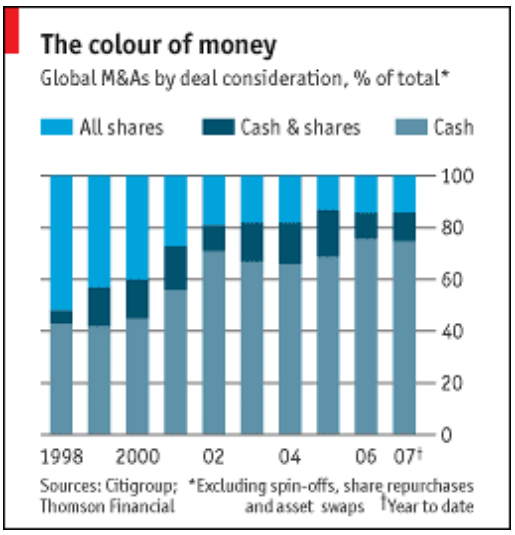
This week saw yet another surge in animal spirits. As the battle for control of ABN AMRO, a Dutch bank, took new twists, Alcoa, an American aluminium giant, launched a hostile bid for Alcan, a Canadian rival. In the wake of Rupert Murdoch's $5 billion unsolicited bid for Dow Jones, Thomson firmed up an £8.8 billion ($17.5 billion) offer for Reuters, a competitor in the newswire and financial-information business. And rumours swirled of a possible acquisition of Rio Tinto by BHP Billiton, its larger competitor, to create the world's biggest mining company.

Such bold forays have been encouraged by soaring stockmarkets. The Dow industrials has lately hit new highs with unusual frequency. China's markets have surged on record trading volumes, despite efforts by officials to talk them down. Forget the turmoil of late February: the markets' strength is encouraging more deals. So euphoric is the mood that even acquirers, usually penalised on the expectation that they will overpay, are seeing their share prices jump: Alcoa's rose by 8% on the day of its bid. To cap it all, Warren Buffett, not normally one to follow the crowd, says he would spend as much as $60 billion on the right deal—far more than the investor has ever forked out on a single acquisition.

This has inevitably led to comparisons with the 1990s merger boom. But there are several big differences. The most obvious is that the 1990s were fuelled by stock, whereas today's frenzy runs on credit. With interest rates low, it has become easier for companies to finance themselves with debt than with equity. Cash is the main coinage (see chart).

This trend has played into the hands of the big private-equity firms, which now lead a fifth of all takeovers, measured by value. They still have giant war chests to empty—the biggest funds are touching $20 billion in size—and are spending at a record pace. With such resources to hand, they are becoming bolder (some would say less discriminating). The average buy-out has tripled in

size since 2005, to $1.3 billion. And taboos are being broken, as evidenced by the recent takeover of a utility and a bank, two industries previously considered immune to private equity.



Another difference is that this boom is broader-based than the last, both in terms of industry and geography. No single industry is far ahead of the rest, as telecoms and the internet were last time. Excitement surrounds financial services, metals and mining, power generation, property and consumer goods. And whereas the deals in the 1990s were concentrated in America, this time they are more evenly spread. In April twice as much was spent in Europe as in the United States.

Moreover, today's merger wave is driven not by enthusiasm for a nebulous “new paradigm”, but by global trends, such as demand for commodities, the globalisation of capital markets and the rise of budding multinationals in developing countries. Companies are using cheap funding as an opportunity to expand into new markets—hence the rise in the share of mergers that are cross-border, to a record 46% in the four months to April.

Reassuringly unfriendly

Today is more like the 1980s than the 1990s in another way, too: the hostility of the buyers. The dotcom era was nauseatingly cosy, with only 4% of deals struck in 2000 deemed hostile or unsolicited. This year the level is hovering close to 20%. One reason for this is the growing influence of shareholders, notably hedge funds, whose patience is short. Given this new breed of owner-agitator, managers of targeted firms are less likely to “dig trenches and stay there,” says Victor Lewkow, a merger lawyer with Cleary Gottlieb. Pension funds and other once-staid institutional shareholders are also becoming more willing to entertain offers as they strive to increase returns.

As in the 1980s antitrust authorities seem to have become more relaxed than they were in the 1990s, especially in America. Mr Lewkow thinks some companies are rushing to do attractive but “dicier” deals (from an antitrust standpoint) in the hope of getting them approved before the change of president, and a possible tightening of enforcement policies. Even so, the likes of Alcoa and Thomson face daunting obstacles. Credit Suisse puts the chances of success for the Reuters takeover at 60%.

But getting a deal past the antitrust police is only half the battle. Research shows that mergers often fail to bring expected benefits: look no further than the break-up of DaimlerChrysler after nine unhappy years. M&A advisers dispute this, pointing to studies that show buyers outperform the market, at least in the year after the deal. But the danger of overpaying clearly increases as competition for transactions heats up and stockmarkets scale new heights. There are signs that this is happening: the average premium being paid, when measured as a percentage of the target's cash flow, is higher that at any time since the bursting of the last bubble.

Moreover, there are fears that mergers will be used to paper over cracks. Profit growth for companies in the S&P 500 will fall to 7% this year after several years of double-digit expansion, reckons Thomson Financial. Firms may join forces to hide their own deteriorating performance.

That should worry shareholders. For those who advise on deals, however, the bigger concern is what might bring the party to an abrupt end. A sharp economic slowdown in America? The collapse of a giant buy-out? A credit crunch with no clear trigger? In private, most bankers say it cannot go on for much longer. In public, they will just keep clinking their glasses.

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Insider trading

When greed is bad

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More deals means more ill-gotten gains

OF ALL the echoes of the 1980s in today's merger boom, perhaps the least welcome is the return of insider dealing. The announcement of almost every large deal in recent weeks has been preceded by suspicious trading spikes. This continues a pattern set last year when large sums were made trading options and credit protection ahead of leveraged buy-outs. In the 17 biggest takeovers of the past year in America, options trading jumped to more than three times normal levels, on average, in the three days before the deal was made public, according to Bloomberg, a financial-information firm.

Not every crime goes undetected. On May 8th America's Securities and Exchange Commission (SEC) charged a Hong Kong couple with using privileged information to buy Dow Jones shares before News Corporation's offer was made public last week. The couple allegedly sold the stock later for a profit of over $8m. In another case with an Asian connection, a former Credit Suisse banker has been charged with tipping off a contact in Pakistan about deals he had worked on, including the buy-out of TXU, a utility. He denies wrongdoing.

Christopher Cox, the SEC's chairman, has made fighting insider traders a priority. The commission has hired more enforcers and is expanding its hedge-fund working group, the better to understand funds' complex trading strategies and how they interact with brokers.

But pinpointing dodgy activity at hedge funds is very hard. And the SEC has other fish to fry. The Credit Suisse case shows that junior investment bankers are a risk. “You're dealing with a lot of young people who forgot, or never learnt, the lessons of the 1980s,” says Harvey Pitt, a former SEC head. The Credit Suisse man apparently described his alleged misdeeds as “fun”. Worryingly, some probes have fingered senior staff too. A defendant in a case involving UBS, Bear Stearns and Morgan Stanley had been a compliance officer.

In a sign of how bad things have become, greater scrutiny is being welcomed in some unlikely corners of the markets. Firms that make markets in options say they are sick of being caught on the wrong side of trades when prices suddenly move on leaked news. Some want to see more, not less, of the SEC. That could be a first.

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Metals

The new gold

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From The Economist print edition

A pot of platinum for the rainbow nation

IT WAS gold that laid the foundation of South Africa's economy over a century ago. Could platinum be a brighter force in its future? That is the hope in exuberant mining towns such as the oddly named Rustenberg as platinum prices near record highs. Dwindling reserves and ever-deeper mines are making gold harder to extract. Meanwhile, sales of the platinum metals group—which also includes palladium and rhodium—were twice those of gold last year. Almost all production is refined and smelted at home, and contributes 15% of South Africa's merchandise exports. Platinum now has roughly as many miners as gold.

Luckily for producers, demand for platinum remains solid, even with rising prices. Lovers may turn to other metals for their engagement or wedding rings, but jewellery accounts for only 22% of platinum demand today, down from 45% in 1999. The car industry requires far more. Now the world of finance is joining in, with the launch of bullion exchange-traded funds (ETFs) in London and Frankfurt by ETF Securities. Switzerland's Zurich Cantonal Bank was expected this week to launch an ETF based on platinum, palladium and silver. Speculation ahead of the launches has helped push prices above $1,300 an ounce. For most of the 1980s and 1990s, they rarely topped $600.

Autocatalysts, which reduce exhaust emissions, now provide the biggest need for platinum. Stringent environmental standards have increased demand and made it less sensitive to price, at least for diesel cars. Although cheaper palladium is increasingly used in new petrol vehicles, platinum is still the only practical option for diesel. With about half of its new cars running on diesel, Europe is the largest platinum consumer.

Speculative demand linked to the ETFs has raised concerns about supply pressures in an already tight market, just as it did for gold. Since the launch of the first gold-traded fund in 2003, financial buyers' share of demand has doubled, from 10% to 19%. There is not enough platinum around for the metal to become as much of a financial refuge as gold has, but ETFs have introduced a new source of demand, which is likely to keep prices high.

Platinum stocks are small compared with gold stocks—there is not much platinum on people's fingers or sitting in central banks' vaults. Autocatalysts have now been around long enough for platinum to be extracted from scrapped cars. But recycling old catalysts still contributes a modest 11% of total supply. So mining companies have been ramping up production, expanding their mines or chasing new deposits. Exploration has picked up.

With South Africa sitting on 80% of the world's platinum resources, places like Rustenberg are where the excitement is. GFMS, a consultancy, reports that global platinum output increased by 6% last year, but overall production outside South Africa was more or less flat. A strengthening rand, red tape over new mining permits, and infrastructure problems and other bottlenecks have been dogging mining investment in the country. But Roger Baxter, of the South African Chamber of Mines, says these are now easing. The people in Rustenberg have good reason to be cheerful; so should anyone wearing a platinum ring on their finger.

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Buttonwood

Gored by the bull

May 10th 2007
From The Economist print edition

Why higher share prices are not good for everybody

RISING asset prices are generally seen as a good thing. There is jubilation when Wall Street soars to a new high, but despondency when share prices tumble. Central banks do not generally worry about asset-price inflation, except in so far (through the wealth effect) that it spills over into consumer prices. The Federal Reserve did not think pricking the dotcom bubble was part of its job, nor indeed did it believe it could judge whether it was a bubble at all.

But rising markets have victims, just as falling ones do. An obvious example is housing. High home prices in Britain and America may be excellent news for middle-class people who started climbing the property ladder 20 years ago. But they make life difficult for young people wanting to buy their first home and for those trying to create affordable housing (even rental accommodation) for low-paid, but vital, workers, such as nurses. That may well reduce labour mobility, imposing a high cost on the economy.

The downside of higher share prices is less discussed. Clearly, booming stockmarkets are good for anyone who started buying shares in the 1980s and early 1990s. They have also benefited those in the financial-services industry, such as private-equity and hedge-fund managers, whose rewards are a geared bet on rising stockmarkets.

But soaring markets tend to reward those who already have wealth, and thus widen disparities in society. According to Chris Watling of Longview Economics, the top 1% of households owns around 40% of America's wealth—the highest proportion since 1929. In the 1970s, they accounted for just 20%.

This creates its own problems, especially when workers are increasingly expected to provide for their own retirement. After all, many companies are retreating from the provision of defined-benefit (final salary) pension schemes because of the cost. As companies switch to defined-contribution (money purchase) schemes, workers not only receive, on average, lower contributions from their employers; they also lose an insurance policy against poor stockmarket returns (because the companies were committed to make up any shortfall in the pension fund). Such a policy would be very expensive to buy in the open market.

Workers trying to replicate a final-salary pension have two further problems. The first is that high share and bond prices imply low yields (the two are inversely related). So they need a larger sum to generate a given retirement income.

The second problem is that, when asset prices are high and yields are low, future returns are likely to be subdued. It thus takes a lot more effort to generate a given lump sum for retirement.

With government bonds and cash yielding 4-5% in Britain and America, financial advisers use a rule of 25. In other words, you need capital equal to 25 times your desired retirement income (equivalent to taking a 4% yield). So for a Briton to have a reasonable—but hardly lavish—retirement income of £20,000 ($40,000) a year, he would need £500,000. For most people, saving such a sum is unimaginable; they may not bother to try, given the scale of the task and the attraction of immediate consumption.

Some of this reluctance may be based on money illusion. In 1990, when a Briton could earn double-digit returns from keeping his money in cash, his capital was being eroded by inflation. Nevertheless, the real yields on assets such as index-linked bonds, seen as the best match for a pension liability, are also very low. Britain's long-dated index-linked gilt yields just 1%; investing £500,000 would thus generate an annual income of just £5,000.

So the world may divide into four. The already wealthy will be well provided for in retirement. The other group of “haves” will be those who have worked for the government and whose final-salary pensions will be funded by taxpayers.

The have-nots will also consist of two groups. Some will have worked for the private sector and will have built up some kind of savings, but their nest-egg will give them scant scope for comfort in their declining years. In some countries, such as Britain, the tax and benefits system may penalise their thrift. The other group of losers will be those relying on state benefits; the generosity of which varies from country to country.

That looks like an unstable and arbitrary situation, with wealth dependent on who you worked for and when you worked rather than on merit. The more numerous losers may demand higher taxes to penalise the lucky winners. What the market hath given, investors may find a future government taketh away.

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Rating Asian banks

Child support

May 10th 2007 | HONG KONG
From The Economist print edition

Governments in Asia are too ready to bail out big banks

THE willingness of countries to intervene on behalf of their banks is not unlike that of parents stepping in to help their children when they go off the rails. No one wants to condone bad behaviour, but the consequences of failure can be dire.

In Asia the risks are particularly acute. There are big, expanding economies in which banks play a much larger role than the capital markets in fuelling growth. That is why countries like China have poured fortunes into bailing out banks when they have run into bad-loan problems. Elsewhere in the region, too, memories of the 1997 financial meltdown have meant governments are reluctant to leave their banks at the mercy of market forces, even as they pretend to foster vibrant private sectors.

For the first time, the two biggest international rating agencies have independently set out to show how much support Asian governments offer their banks. Moody's released its results for Asia this month after a controversy in the spring about changes to its bank-rating methodology. Standard & Poor's pipped it to the post by less than a fortnight. The differences between the two findings reveal how hard it is to measure the level of official protection. But both clearly believe that the governments fear to entrust the health of their financial systems to the care of the capital markets.

Only one place, Hong Kong, was judged by both Moody's and S&P to be genuinely non-interventionist (though in a crisis even Hong Kong, like any developed market, would surely rescue HSBC, its largest bank). In Australia and Singapore, S&P contends, governments try not to meddle. Moody's argues that they would, but quietly: Singapore would do what it could to halt a crisis; Australia has engineered the merger of troubled institutions into healthy ones in the past. .

Both agencies believe official backing for banks in China is particularly strong. S&P gives China the biggest ratings improvement based on the extent of public intervention. Ping Chew of S&P says Chinese banks would be very vulnerable without state backing, especially the three publicly traded giants, which despite improvements continue to suffer from loan losses that would be intolerable for a bank in a developed market.

Japan, too, gets a big boost. S&P gives its single largest upgrade to Ashikaga Bank in Japan, which is already being nursed back to health by the government. Most other Japanese banks get a higher rating. Both agencies agree that the biggest banks in South Korea, Taiwan, Thailand, Indonesia and Vietnam would also be bailed out.

In general the bigger the institution, the more likely there is to be support, especially when the government has a direct stake (as in the Bank of Taiwan and the Industrial Bank of Korea). Under S&P's system, India's private banks would all be eligible for an upgrade given the country's interventionist bent. However, they are already rated as high as the country, and for S&P they cannot rise above that ceiling. Moody's goes a bit further, reasoning that governments can and will rescue an individual bank, even if they lack sufficient resources to bail out the whole system in a crisis.

Given the extent of state support, the hardest judgement for Moody's and S&P was where to cap the ratings. Shouldn't all banks in the region receive at least the sovereign rating? Ratings at the sovereign level would help draw attention to the fact that the capital markets are still regarded with some suspicion in Asia. They should not be. With the Asian economies strong, now is a good time for states to be cutting ties with their banks. Guarantees create moral hazard and foster poor lending standards. A break would be a good way to attract fresh capital into the banking system. After all, those countries with the healthiest banks, Hong Kong, Australia and Singapore, are also those with the deepest international capital markets.

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Australia's Qantas Airways

Boomerang

May 10th 2007 | HONG KONG
From The Economist print edition

Private equity gets a taste of its own medicine

BANKERS like to say that hedge funds and private-equity firms come to Asia for the excitement of China and then end up spending their money in the friendlier climate of Australia. Followers of this strategy suffered a serious setback on May 8th when those behind an A$11.1 billion ($9.2 billion) offer for Qantas Airways, one of Australia's prize assets, announced that it had lapsed.

The private-equity backers of the deal were livid, and there was plenty of finger-pointing. An intransigent hedge-fund manager was blamed; there was also speculation that the deal may have fallen foul of Australia's foreign-ownership laws.

The truth is, the bidding consortium, including Australia's Macquarie Bank and America's TPG, were probably defeated by market forces. Two years ago it was enough for private-equity firms to bring money to the table and shareholders of almost any target would roll over in submission. These days stockmarkets are booming, profits are strong and investors are more discriminating. Instead of handing over the upside to buy-out firms, they want a slice of it.

Since news of a possible Qantas buy-out began to circulate last November, the airline's profits have surged and there is widespread expectation that this will be a superb year. Qantas, like many Asian airlines, is doing particularly well with lucrative first- and business-class passengers. Their fares have more than offset the high cost of fuel.

So how would private-equity bosses improve returns? The trick is to sack inept management, take a three-year view and pile on debt. But no one claims Qantas is badly run—indeed its management was due to stay aboard. And airlines are notoriously cyclical, so too much leverage would be a problem.

Back in 1989, the failure of a leveraged buy-out of UAL sent its stock skidding and was widely viewed as the trigger for the broader collapse of a market that had been kept aloft on the promise of endless deals. In sharp contrast, shares in Qantas only dipped slightly this week, and the Australian market as a whole hit a new peak. Evidently, liquidity is not limited to buy-out firms. Public shareholders have lots of money to invest too. If Qantas's prospects are so bright, why, they justifiably argue, should they not share in them?

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Financial services in Japan

Serious, honest

May 10th 2007 | TOKYO
From The Economist print edition

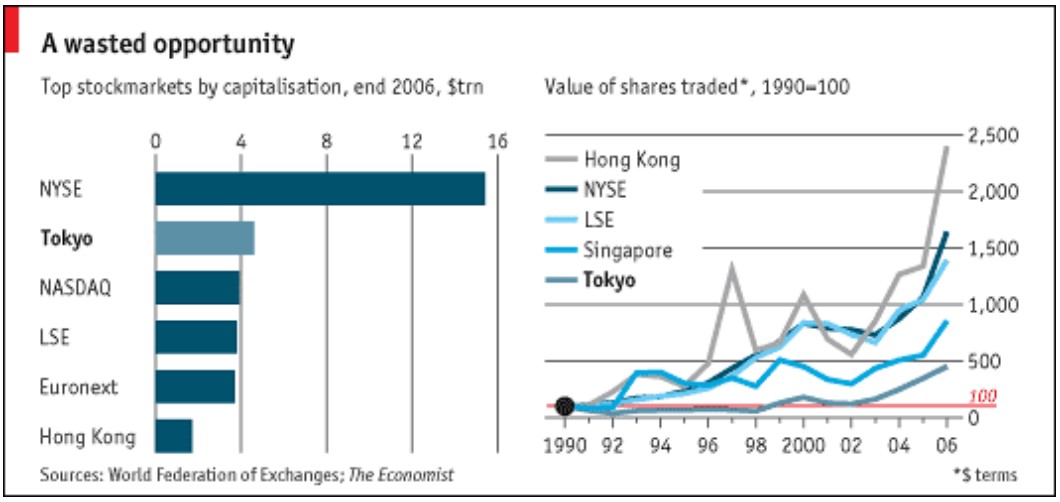
Everybody's agreed: it is time for Tokyo to up its game

Get article background

“WHENEVER there's a new government,” Hiroshi Saito, president of Mizuho Corporate Bank, part of Japan's second-biggest financial group, says with more than a hint of world-weariness, “it always announces that Tokyo will be the next international financial centre.” Sure enough, the government of Shinzo Abe, prime minister since last autumn, says that Japan must act quickly to make Japan's financial markets competitive enough to attract global business. This summer it promises to come up with some crisp proposals. These, says Koutaro Tamura, parliamentary secretary responsible for financial services, will be proof of the government's sense of purpose.

The incoming head of the troubled Tokyo Stock Exchange (TSE), Atsushi Saito (no relation of the bank president), who is helping the government draw up its plans, explains the urgency. Though Japan has prospered as a manufacturing power, it can no longer rely on this alone, now that it is sending much manufacturing overseas. With a population that is both ageing and shrinking, Japan's savings must earn more than today's pitiful rates. Better asset allocation can happen only if Tokyo's competitiveness as a financial centre is boosted, attracting international talent.

Tokyo does not stack up well at present. On the one hand, Japan's economy is now out of its long funk, and both stock- and property markets are steadily reviving. The country sits on ¥1,500 trillion ($12.5 trillion) of household financial assets. These vast savings and Japan's many listed companies, many of them champions, mean that Tokyo is home to the world's second-biggest stockmarket after New York and hosts easily the biggest in Asia, dwarfing Hong Kong (see left-hand chart). Tokyo is also a safe city to live in.



On the other hand, despite a rolling programme of deregulation in the late 1990s, Tokyo's financial markets remain parochial and unsophisticated. At the peak of the bubble years in the 1980s Japan's stockmarket capitalisation accounted for more than a third of the world total; it is now less than one-tenth. Meanwhile, Tokyo's share-trading volumes are growing more slowly than those of its main rivals (see right-hand chart). The combined daily turnover in Shanghai and Shenzhen, which at the turn of the century was barely tracked internationally, this week climbed to almost double that of Tokyo. When volumes in Japan finally picked up, they caught the TSE off-guard: on a couple of occasions in late 2005 and early 2006 the exchange's systems crashed, a deep embarrassment.

As importantly, much of the financial innovation that has swept over other financial centres in recent

years has passed Japan by. Securitisation is in its infancy, as is the use of derivatives. The TSE's systems are unable to handle some of today's trading strategies. Japan's bond market, if huge, is dominated by government issues. Companies finance themselves out of cashflow or by borrowing from banks; they account for only 7% of issued bonds.

As for foreign participation, America's Citigroup late last month gained control of Nikko Cordial, Japan's third-biggest stockbroker, for ¥920 billion, the biggest-ever foreign takeover in Japan. Nikko's standing had been badly undermined by auditing malpractice. The deal is one sign of the potential for foreign participation in Japan's capital markets, even if scandal drove Nikko into Citigroup's arms.

On the other hand, less than 5% of Tokyo's financial-services employees are reckoned to be foreigners. Many of the hedge funds active in Japan's markets are based in Hong Kong or elsewhere, not in Japan. The number of foreign companies listed on the TSE has fallen from 127 in 1991 to a mere 26 today. Late last month a small advertising firm became only the first ever mainland Chinese company to list in Tokyo; for years Hong Kong has thrived on the listings of Chinese giants.

A report from a group of notables including Atsushi Saito, formerly an investment banker and head of the Industrial Revitalisation Corporation of Japan (which is the government's corporate bail-out agency and has just been wound down), recently told the government's Council on Economic and Fiscal Policy what should happen. Its ideas include strengthening settlement systems, establishing markets for professional investors that are regulated with a lighter touch, bringing Japanese accounting practice in line with international standards, introducing more English-language disclosure for listed companies and boosting the competence of its professions—Japan has, for instance, just 17,000 certified public accountants compared with 330,000 in America. If the government takes up just half of what is proposed, says Mr Saito, it will mark a huge change in attitudes.

Mizuho's Mr Saito says that Japan must dismantle the legislative walls that still separate banking and securities businesses, even when these share the same owner. Mr Tamura says the government will not go that far, and not just because of lobbying from stockbroking firms. Officials argue that Japanese banks, which have stakes in many listed companies, would be too compromised by potential conflicts of interest to allow for full integration. Still, says Mr Tamura, the government is looking at ways for customers more easily to gain access across different parts of a financial group.

Above all, there is a problem of regulating firms. Even by Mr Tamura's admission, the Financial Services Agency (FSA) suffers from undue meddling by politicians. This is one reason why neither the regulation of firms nor their punishment for wrongdoing is consistent. What is more, the FSA, as well as the Securities and Exchange Surveillance Commission which sits under it, manages to be both understaffed and overly adversarial. It precludes a level of trust and open communication between regulated and regulator. And that, says a senior Western investment banker, means that some of the industry's best compliance officers—ones that might be expected to wish for the same clean and honest competition as the FSA—at present want nothing to do with Tokyo.

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Economics focus

To do with the price of fish

May 10th 2007
From The Economist print edition

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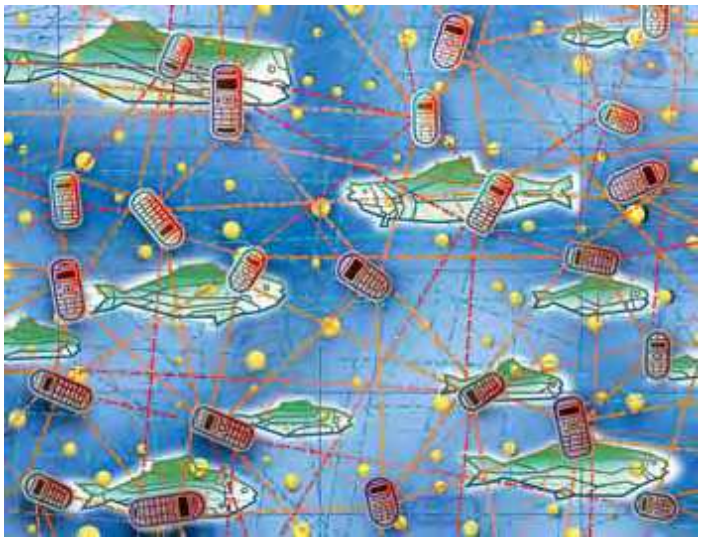

How do mobile phones promote economic growth? A new paper provides a vivid example

YOU are a fisherman off the coast of northern Kerala, a region in the south of India. Visiting your usual fishing ground, you bring in an unusually good catch of sardines. That means other fishermen in the area will probably have done well too, so there will be plenty of supply at the local beach market: prices will be low, and you may not even be able to sell your catch. Should you head for the usual market anyway, or should you go down the coast in the hope that fishermen in that area will not have done so well and your fish will fetch a better price? If you make the wrong choice you cannot visit another market because fuel is costly and each market is open for only a couple of hours before dawn—and it takes that long for your boat to putter from one to the next. Since fish are perishable, any that cannot be sold will have to be dumped into the sea.

This, in a nutshell, was the situation facing Kerala's fishermen until 1997. The result was far from ideal for both fishermen and their customers. In practice, fishermen chose to stick with their home markets all the time. This was wasteful because when a particular market is oversupplied, fish are thrown away, even though there may be buyers for them a little farther along the coast. On average, 5-8% of the total catch was wasted, says Robert Jensen, a development economist at Harvard University who has surveyed the price of sardines at 15 beach markets along Kerala's coast. On January 14th 1997, for example, 11 fishermen at Badagara beach ended up throwing away their catches, yet on that day there were 27 buyers at markets within 15km (about nine miles) who would have bought their fish. There were also wide variations in the price of sardines along the coast.

But starting in 1997 mobile phones were introduced in Kerala. Since coverage spread gradually, this provided an ideal way to gauge the effect of mobile phones on the fishermen's behaviour, the price of fish, and the amount of waste. For many years, anecdotes have abounded about the ways in which mobile phones promote more efficient markets and encourage economic activity. One particularly popular tale is that of the fisherman who is able to call several nearby markets from his boat to establish where his catch will fetch the highest price. Mr Jensen's paper* adds some numbers to the familiar stories and shows precisely how mobile phones support economic growth.

As phone coverage spread between 1997 and 2000, fishermen started to buy phones and use them to call coastal markets while still at sea. (The area of coverage reaches 20-25km off the coast.) Instead of selling their fish at beach auctions, the fishermen would call around to find the best price. Dividing the coast into three regions, Mr Jensen found that the proportion of fishermen who ventured beyond their home markets to sell their catches jumped from zero to around 35% as soon as coverage became available in each

region. At that point, no fish were wasted and the variation in prices fell dramatically. By the end of the study coverage was available in all three regions. Waste had been eliminated and the “law of one price”—the idea that in an efficient market identical goods should cost the same—had come into effect, in the form of a single rate for sardines along the coast.

This more efficient market benefited everyone. Fishermen's profits rose by 8% on average and consumer prices fell by 4% on average. Higher profits meant the phones typically paid for themselves within two months. And the benefits are enduring, rather than one-off. All of this, says Mr Jensen, shows the importance of the free flow of information to ensure that markets work efficiently. “Information makes markets work, and markets improve welfare,” he concludes.

Mr Jensen's work is valuable because studies of the economic effect of mobile phones tend to be macroeconomic. A well known example is the finding in 2005 by Leonard Waverman, of the London Business School, that an extra 10 mobile phones per 100 people in a typical developing country leads to an additional 0.59 percentage points of growth in GDP per person. (He recently repeated this earlier study using a more elaborate model and found that an extra 10 percentage points in mobile-phone penetration led to an extra 0.44 percentage points of growth, a difference he says is not statistically significant.)

Calls and effect

One criticism levelled at such studies, says Mr Waverman, is that it is difficult to tell if mobile phones are promoting growth, or growth is promoting the adoption of mobile phones, as people become able to afford them. It is easy to imagine ways in which mobile phones could stimulate economic activity—they make up for poor infrastructure by substituting for travel, allow price data to be distributed and enable traders to engage with wider markets, and so on. Mr Waverman uses a variety of statistical tests to try to tease apart cause and effect. But detailed analyses of micro-market data like Mr Jensen's, he says, show how phones really do make people better off.

Furthermore, says Mr Jensen, phones do this without the need for government intervention. Mobile-phone networks are built by private companies, not governments or charities, and are economically self-sustaining. Mobile operators build and run them because they make a profit doing so, and fishermen, carpenters and porters are willing to pay for the service because it increases their profits. The resulting welfare gains are indicated by the profitability of both the operators and their customers, he suggests. All governments have to do is issue licences to operators, establish a clear and transparent regulatory framework and then wait for the phones to work their economic magic.

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*“The Digital Provide: Information (technology), market performance and welfare in the South Indian fisheries sector”, by Robert Jensen. To be published in the *Quarterly Journal of Economics*, August 2007.

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Space weather

Look down, look up, look out!

May 10th 2007 | KANGERLUSSUAQ, GREENLAND
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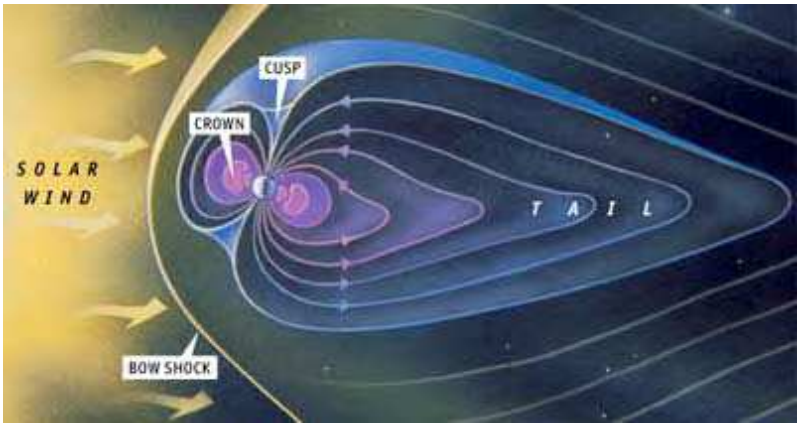
The weather in space is controlled by events at the centre of the Earth. A pity, then, that the magnetic field generated there may be about to go into reverse



GREENLAND was discovered without the use of magnetic compasses. The Viking longboats that arrived here in 982 relied on the stars and the sun to maintain their orientation. But it was the compass (a Chinese invention) that enabled later European navigators to bestride the world. It was the compass, too, which revealed that the Earth itself has a magnetic field and thus led to the first serious question about the planet's internal structure: what is down there that generates this field?

Such a question is not merely academic. Besides directing compasses, the Earth's magnetic field reaches out into space to direct the flow of the solar wind around the planet—forming a structure called the magnetosphere (depicted above). When the wind hits this field it creates a shock wave known as the bow shock. Most of the protons and electrons of the wind go round this shock wave, and lots of dangerous radiation from the sun is thus diverted away from the Earth.

There is, however, a growing body of evidence that the Earth's magnetic field is about to disappear, at least for a while. The geological record shows that it flips from time to time, with the south pole becoming the north, and vice versa. On average, such reversals take place every 500,000 years, but there is no discernible pattern. Flips have happened as close together as 50,000 years, though the last one was 780,000 years ago. But, as discussed at the Greenland Space Science Symposium, held in Kangerlussuaq this week, the signs are that another flip is coming soon.

One of those signs is that the strength of the field has been falling by 5% a century recently. A similar (though more rapid) diminution accompanies the reversing of the sun's magnetic field, which happens every 11 years or so. Other evidence comes from old navigation records. Researchers such as Nils Olsen, of the Danish National Space Centre, have used such records to chart the growth of patches of abnormal magnetism. They are able to do so because these records use both compass bearings and astronomical observations to locate a vessel. The changing relationship between the two shows that patches of abnormal magnetism have been growing off south-east Africa and in the South Atlantic.

Just when the magnetic field will flip is impossible to predict from what is known at the moment; the best guess is that there are still several centuries to go. Nor is it clear how long its protective shield will be down. (The record in the rocks is little help, since a geological eyeblink represents many human lifetimes.) But understanding how the magnetosphere works now should help to deal with the consequences if and when it vanishes.

Bright lights

One of the pioneers of the field was Dr Olsen's colleague Eigil Friis-Christensen. Thirty-five years ago he took a boat north along the west coast of Greenland. As he travelled, he set up instruments called magnetometers to measure electric currents in the upper atmosphere. These magnetometers and their successors have played the role that barometers did for early weather forecasters. Then, the pattern of pressure changes the instruments recorded tracked the passage of storms in the atmosphere. Now, it is storms in the magnetosphere that are recorded.

Dr Friis-Christensen's own work has focused on a structure known as the “cusp”. This separates the magnetosphere's two main compartments: the crown, a round projection that stretches sunwards by about five times the diameter of the Earth, and the tail, which is shaped as its name suggests and runs far into space on the Earth's night time side.

The cusp is responsible for the famous auroras that grace high latitudes. This is because it is at the cusp that magnetic field-lines stream down towards the ground, acting as paths for electrons and protons that have slipped past the bow shock. When these particles hit the upper atmosphere they generate light in the same way that electrons from the cathode of an old-fashioned television set do when they hit the phosphorescent dots of the screen.

The famous night-time auroras (borealis in the north, australis in the south) are the result of particles streaming in from the tail. But particles come in from the crown, as well, forming invisible daytime auroras that Dr Friis-Christensen was among the first to study.

Another Greenland-based instrument, a few miles from Kangerlussuaq, has pinned down more details about the cusp. The Sondrestrom Upper Atmospheric Research Facility has a 32-metre-wide radar dish. It measures conductivity from an altitude of 60km to 600km and has helped define the cusp's circuitry. That is important because, although it is not technically part of the atmosphere, the plasma of charged particles in the magnetosphere experiences what might be (and indeed often is) referred to as weather.

Like the weather on Earth, this space weather has consequences. If it gets nasty, communications satellites may be knocked out and radio communications within the atmosphere disrupted. In extreme circumstances, power grids may go down, too. Foul weather in space is also bad news for astronauts. A bad storm could kill an unshielded individual. But although the source of such foul space weather is known—it happens when giant flares on the surface of the sun pour out more protons and electrons than normal—the details depend on structures within the magnetosphere that are only now coming under scrutiny. Sometimes storms drift past the Earth with little impact. On other occasions they pummel the magnetosphere's crown to about half its normal distance from the Earth's surface. Furthermore, the magnetosphere's structure is layered, like an onion. The same type of particle can take on entirely different characteristics, depending on which layer it is in. The art of forecasting space weather is in its infancy.

How much longer it will remain within Dr Friis-Christensen's purview, though, is moot. Barometers are now curiosities, as satellite-based forecasting has taken over. The same thing is about to happen to space meteorology. Five satellites, collectively called THEMIS, that were launched in mid February, may make his magnetometers as old-fashioned as the mahogany instrument hanging in a hotel lobby.

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Allergies

Protect and die

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From The Economist print edition

How fruit smuggles allergy-stimulating chemicals past the body's defences

THERE are many theories that try to explain how allergies develop. Some argue that the absence of parasites is leading to hypersensitive immune systems. Some suggest that chemical agents used in modern manufacturing trigger allergic reactions. Still others have it that breast-feeding for too long is responsible.

Once someone is susceptible, however, a different question becomes pertinent. This is, how to stop allergens, as allergy-stimulating chemicals are known, from getting into the bodies of those at risk. And Tanja Cirkovic-Velickovic and her colleagues at the University of Belgrade, in Serbia, think they may have part of the answer—or, at least, that they have found how allergens get past one of the mechanisms designed to keep them out.

Dr Cirkovic-Velickovic's work hinges upon one thing that allergy scientists do know for certain: an important characteristic of allergens in food is their ability to avoid destruction when exposed to digestive fluids. If allergens can survive the hostile environment of the stomach, they are absorbed by the intestines, enter the blood stream, and interact freely with the immune system.

This is where the trouble starts. When the immune system encounters an allergen, it may become sensitised. If it does, it identifies that allergen as an object to be attacked, thus priming the body for an allergic reaction the next time the allergen in question is encountered.

The best thing, therefore, is to stop allergens from getting to the immune system in the first place, and this led Dr Cirkovic-Velickovic and her team to study how allergens survive the highly acidic environment of the stomach. Their study used doses of kiwi fruit, apple, cherry and banana extracts and exposed them to synthetic stomach conditions (lots of acid, together with pepsin, an enzyme that speeds up digestion). The allergens in all of the extracts survived the exposure. This was not what was expected, since it did not agree with earlier work.

Previous studies that had looked at the digestion of fruit allergens had discovered they are destroyed by the hostile conditions they encounter in the stomach. This forced the team to consider what they had done differently. They realised that they had used crude fruit extract—essentially, fruit pulp—whereas the earlier researchers had used purified allergens. Something in the fruit that was not an allergen itself was allowing the allergens to survive.

After testing many other compounds, the team tried pectin. This carbohydrate, a common component of fruits, is used as a gelling agent in jams, jellies and marmalades. The researchers hypothesised that the gelling properties of pectin were, in some way, protecting the allergens from degradation. They therefore decided to run a second trial.

This time they took a kiwi-fruit allergen called thaumatin-like protein—which they knew would degrade quickly in the stomach by itself—mixed it with pectin and exposed it to synthetic stomach conditions. It survived. Then they ran a third trial, this time with volunteers who ate normal kiwi fruit. Samples of stomach fluid were taken from the volunteers an hour later and analysed. The thaumatin-like protein, which had not been able to withstand ten minutes by itself in synthetic stomach conditions, was found intact after an hour in a real stomach.

Dr Cirkovic-Velickovic's theory is that pectin is forming a gel in the stomach during digestion and that this is hampering the destruction of allergens. How much that will help those susceptible to allergic reactions is not clear. But it might help those, such as drug companies, who actually want to smuggle chemicals through the stomach and into the intestines.

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Data storage

A magnetic hippodrome

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From The Economist print edition

How to record a memory on a wire

HARD disks dominate the field of computer memory. They store oodles of information—which is why they are so useful. But they are also slow, heavy and power-hungry. Unfortunately solid-state memories, such as flash, that do not have these disadvantages are too expensive for stashing the vast programs needed to run a modern computer. What engineers would like is a device that combines the best of both. And a group of them have now taken a step towards developing such a piece of kit—a magnetic memory with no moving mechanical parts.

The idea began a few years ago when Stuart Parkin, who works at IBM's Almaden Research Centre in San Jose, California, worked out how to use a wire to store information magnetically. It has now been improved by Guido Meier, of the University of Hamburg. As he reports in *Physical Review Letters*, Dr Meier has taken Dr Parkin's idea and speeded it up to the point where it might eventually make a practical technology for computer users.

Traditional hard drives employ electrodes called heads to create tiny magnetic regions, known as domains, on the surface of a plate as it spins. The alignment of the north and south poles of each domain indicates whether it represents a one or a zero of the binary code—and that alignment can be read by a second head. Dr Parkin's wire is also divided into domains. But instead of moving the wire to bring those domains under the heads, in the way that a spinning hard disk would, his device moves the domains themselves along the wire, using an electric current. A wall between two domains represents a “one”; the absence of wall in a place where one might be expected represents a “zero”.

Magnetism is, ultimately, the result of a quantum-mechanical property known as spin. In particular, every electron has its own magnetic field aligned with the axis of its spin. If the electrons are spinning at random, these fields cancel each other out. If they are aligned, they reinforce each other to create a field that can be detected from the outside.

Both research groups use wire made of a standard alloy of nickel and iron that is easy to magnetise. They create domains along the length of the wire, in which the spins of the electrons of the atoms in the wire are aligned. Then they run pulses of current through the wire.

When a current flows in such a wire, the electrons that flow as electricity are forced to align their spins to those of the local atoms embedded in the wire. This means that when they come to a boundary between two different domains, their spins flip. That flip transfers angular momentum to the domain wall, pushing it along in the direction of the current. By using short and intense bursts of current, a succession of domain walls can be shoved past a reading head. It works like a tape, except that there are no moving spools.

The biggest problem with getting such an idea off the laboratory benchtop and onto the factory floor is the speed at which the domain walls travel. Until now, this has been a hundredth of the velocity that theory predicted. Which is where Dr Meier comes in. He and his colleagues (and also Dr Parkin, in a separate experiment) have persuaded practice to match theory. They report speeds of 110 metres a second, comfortably competitive with the speed of a hard disk. Their trick was to shorten the lengths of the pulses of current to about a nanosecond. Rapidly changing currents exert a greater force on domain walls than do slowly changing ones.

For the technology to work like a disk, though, the same bits of data will have to pass repeatedly under the reading and writing heads. That means the wires will have to loop. Dr Parkin is now working on integrating the technology with traditional silicon chips by inserting the ends of the wires into a chip to form U–shaped loops reminiscent of an ancient Roman hippodrome. Indeed, he refers to the technology as a magnetic racetrack. Time to place your bets?

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Sporting statistics

A cricket box

May 10th 2007
From The Economist print edition

When averages are just mean

CRICKET is a game dominated by statistics. The ultimate measure of a batsman's worth is his average: the total number of runs he has scored divided by the number of times he has been out. In the case of Sir Donald Bradman, Australia's most famous batsman, this reached near perfection: a fraction under 100 runs per innings over a 20-year international career.

But batting averages can be distorted by a quirk—innings in which the batsman is not out are included in the total but excluded from the divisor. Occasionally, this can produce bizarre results. During the 1953 season for example, a complete duffer called Bill Johnston also managed an average of 100, thanks to being dismissed just once in 17 innings.

Now two actuaries have diverted their attention from falling mortality rates to devise a system that eliminates this perversity. Sanchit Maini and Sumit Narayanan base their idea on the number of balls faced in an innings. If a batsman comes in and survives one ball unvanquished, only for the team's innings to end, it says little either way about his scoring ability. If he bats for a long time, though, it does. So Mr Maini and Mr Narayanan propose, in the latest edition of the *Actuary*, that a not-out innings should sometimes count in the divisor—thus reducing a batsman's average compared with the traditional method of calculation—but only if the number of balls he faced in that innings is greater than the average for his career.

Stumped by statistics

Cricket averages for international one-day matches

Player	Normal average	Revised average*	Difference
Bevan (Aus)	53.6	38.7	14.9
Klusener (S Af)	41.1	28.9	12.3
Clarke (Aus)	44.2	34.7	9.6
Miandad (Pak)	41.7	35.1	6.6
Symonds (Aus)	39.3	32.8	6.5
Jones (Aus)	44.6	38.2	6.4
Lehmann (Aus)	39.0	33.0	6.0
Rezzaq (Pak)	30.4	24.7	5.7
Richards (WI)	47.0	41.4	5.6
Boucher (S Af)	26.7	21.9	4.8

Source: *The Actuary* *Adjusted for 'not out' innings

When averages for one-day international matches are recalculated using this system, batsmen from the top of the order, such as Brian Lara, a recently retired West Indian genius, barely suffer. Such men normally bat early, in order to give them the opportunity to score the maximum number of runs, and also to tire out the bowlers so that weaker batsmen who come in later on still have a chance. They rarely survive the whole innings without being dismissed. The biggest reductions in average are suffered by those who start batting near the end of an innings and are thus more likely to remain when it closes. English cricket fans will be delighted to learn that in the group of one-day batsmen examined by Mr Maini and Mr Narayanan, five of the seven to suffer most are Australian. Now if only actuaries can find a way to revise away England's 5-0 winter defeat by the colonials...

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Communism

The ash heap of history?

May 10th 2007
From The Economist print edition

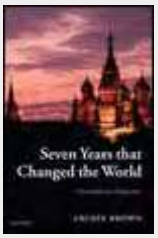
Two illuminating new books on communism: the ideology's history and the legacy left by Mikhail Gorbachev

Comrades! A History of World Communism
By Robert Service

Harvard University Press; 624 pages; $35. Macmillan; £22.95

Buy it at
Amazon.com
Amazon.co.uk

Seven Years that Changed the World: Perestroika in Perspective
By Archie Brown



Oxford University Press; 350 pages; $45 and £25

Buy it at
Amazon.com
Amazon.co.uk

Topham Picturepoint

IS THERE any reason left to care about Soviet communism? Economists have little time for Marxism-Leninism, finding it inadequate both in theory and in practice. Governments of what were once Soviet territories have eagerly signed up to the class enemy's alliances, NATO and the European Union. Russia itself has moved on. Even China, ostensibly still a major communist power, chose its own path to markets and modernity and is now beating capitalists at their own game.

But two new books will convince doubters that spending time on the Soviet experience is still worthwhile. The authors are both based at St Antony's College, Oxford. Robert Service is the current professor of Russian history, while Archie Brown, after 34 years of teaching, is now emeritus professor of politics.

Both are very much concerned with the Soviet legacy for the present day, although their approaches could hardly be more different. Mr Service has produced a wide-ranging history that traces communism's intellectual origins back through early modern Europe to ancient Greece as well as its modern spread to countries covering a third of the earth's surface. As he puts it: “Communist parties have existed in almost every area of the globe except the polar ice caps.” By contrast, Mr Brown uses a magnifying glass to look at the Gorbachev era and its effects.

Of the two, Mr Brown's book is more immediately timely, but also more problematic. “Seven Years that Changed the World” speaks directly to the heated debate about the end of the cold war. While American triumphalists promote it as a victory for the Reagan administration, Russian foreign-policy makers repudiate what they see as the unnecessary over-capitulation of the Gorbachev era. The consequences of this debate are not just academic. Working from a position of financial strength based on his government's control of oil profits, Vladimir Putin is fashioning policies aimed at undoing the perceived mistakes of recent decades and reasserting Russian influence abroad.

Mr Brown steers between these two narratives, making a compelling case for Mikhail Gorbachev's leadership—a case that emerges despite a format that awkwardly combines some earlier essays with new analysis. In the 1980s the author was among the earliest to recognise that Mr Gorbachev was a serious reformer. Before getting properly under way, his book includes a selection of more or less unchanged reprints. These prove his prescience, but it would have been better just to have summarised them.

The bulk of the book is a necessary reminder of what Mr Gorbachev and *perestroika* achieved—even if inadvertently. For what, asks Mr Brown, did Mr Gorbachev sacrifice “the boundless authority, the unquestioning obedience, the orchestrated public adulation”? For freedom of speech, freedom of religion, competitive elections and a host of other accomplishments. The author rightly concludes that the “democratic shortcomings of post-Soviet Russia notwithstanding, the country that Gorbachev bequeathed to his successors was freer than at any time in Russian history.”

The promotion of such values seems all the more remarkable given their tortured transit through the 20th century, as brilliantly described in Mr Service's “Comrades!”. With this volume he has produced one of the best-ever studies of his subject, even if he is much stronger on Russia than on other countries. Eschewing the usual convoluted language of Marxist debates, he provides a gripping account of communism's intellectual origins, pedigree and impact. Concluding that Marx and his followers “were not the fundamental rethinkers of the contemporary world”—he accords that honour to Albert Einstein, Max Weber and others—Mr Service turns from ideas to their practical application.

He argues that one can indeed trace a single unified history of communism, namely by following the rise and spread of the “truly innovative” Russian model. Through numerous country studies, the author concludes that all durable regimes had essential coercive characteristics in common. They centralised

power, eliminated rival parties, attacked religion, established secret police forces and sent dissenters to labour camps. He compares communists both to fascists, with whom he sees ideological differences but practical similarities, and to early Christians. Like the latter, he says, communists enjoyed a feeling of certainty blessed by omniscience, with the deity in their case being “the march of history”.

As is to be expected, even a book as rich as this cannot cover all bases. Culture receives short shrift in favour of politics. Chapters on countries other than the Soviet Union are not as convincing. Why Chinese economic reform succeeded so spectacularly remains inadequately explained. And opponents of Mr Service's damning indictment may justifiably claim that he fails to explain why communism proved so appealing to anyone at all.

Nonetheless, the book remains a remarkable accomplishment, and worrying reading. Even though Soviet communism as an idea may have failed, its interaction with the Russian population contains a powerful warning. Mr Service makes a strong case that “poverty and oppression constituted the best soil for Marxism to grow in.” Russia in the late 19th century had no legal parties or trade unions, no parliament, limited schooling and no avenues out of poverty for the poor.

As a result, Russia proved highly susceptible to the lure of what, in current parlance, would be called wingnuts (fanatics on the far left or right). A reader emerges from Mr Service's volume with the sobering conviction that the only enduring means of preventing political extremism is to establish and maintain healthy institutions of civil society: a tall order indeed.

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By Robert Service.
Harvard University Press; 624 pages; $35.
Macmillan; £22.95

Seven Years that Changed the World: Perestroika in Perspective.
By Archie Brown.
Oxford University Press; 350 pages; $45 and £25

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Benazir Bhutto

BB minus

May 10th 2007
From The Economist print edition

Get article background

LIKE most military rulers, General Pervez Musharraf, Pakistan's president, does not make life easy for civilian politicians. In one field, however, he has been merciful: that of autobiography. They may suffer banishment and political exclusion, but his opponents can comfort themselves that they will never write a book as laughably vainglorious as the general's “In the Line of Fire”, published last year.

Benazir Bhutto, however, twice prime minister of Pakistan, and now in exile, is a formidable politician. She seems determined to give the general a run for his money. Indeed, perhaps it was his book, to which she refers in her own, that prompted her to update and relaunch her own autobiography, first published in 1988. Less a considered reflection on a life half-lived, it is the manifesto of an inchoate political campaign.

AFP

Will she, won't she return?

This is, after all, a crunch year in Pakistani politics, with General Musharraf manoeuvring to stay in power, and in uniform, despite the constitutional obstacles and the promises to stand down he has made. Recalling Benigno Aquino (an opponent of the Philippine dictator, Ferdinand Marcos, who was shot dead on his return to Manila in 1983) she concludes her book with a promise to go home: “I take the risk for all the children of Pakistan.”

Daughter of the East: An Autobiography
By Benazir Bhutto

Simon & Schuster; 442 pages; £12.99

Buy it at Amazon.co.uk

As with General Musharraf's, the most interesting parts of her book are a few juicy and unprovable revelations—in her case about the general himself. The man now making peace with India, she reports, came to her when she was prime minister in 1996 and offered to invade the Indian-administered part of disputed Kashmir.

Coming up to date, she argues that General Musharraf is a fraud. Though he presents himself to the West as Pakistan's main bulwark against Islamist extremism, “his regime cohabits with extremists” guilty of terrorist atrocities across the globe. She also points out that General Musharraf's reluctance to deal with democratic parties, notably her own Pakistan People's Party, has helped create the political space in which extremism flourishes. Yet Pakistani politics are rife with rumours of an imminent deal between Miss Bhutto and General Musharraf, allowing her return. Perhaps a rapprochement will be marked by a public burning of their autobiographies, both of which drip with their mutual antipathy.

Literature would be less of a loser in such a bonfire than political analysis. But Miss Bhutto could not hope to write as bad a book as General Musharraf's: her story is too remarkable and too moving. She was born into one of the country's wealthiest dynasties and educated at Harvard and Oxford. Her father, Zulfikar Ali Bhutto, a deposed prime minister, was executed. Her two brothers were killed. She, her mother and her husband have all spent time in jail. The first words of the new edition—“I didn't choose this life; it chose me”—are almost true. She became the leader of a Muslim country and “the only head of government in recorded history to actually give birth while in office”.

It is hard not to admire her for the hardship and loss she has endured, and the determination she shows to carry on the fight. But it is hard to like her refusal to admit any serious misjudgment. Undemocratic

transfers of power are deplorable; but the incompetence and corruption of her regimes contributed to their own downfall, a sad truth she ignores. Perhaps it is too much for a reader to expect candour from a politician in what is, like General Musharraf's, a political work-in-progress. Or maybe it is too much for a politician to expect us to read it.

Daughter of the East: An Autobiography.
By Benazir Bhutto.
Simon & Schuster; 442 pages; £12.99

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Nuclear proliferation

An awful certainty

May 10th 2007
From The Economist print edition

SOON after the obliteration of Hiroshima on August 6th 1945, the men who had made it possible, including Robert Oppenheimer and Albert Einstein, formed a group called the Federation of American (Atomic) Scientists. Its aim was to explain to governments, starting with America's, what nuclear weapons truly were. As Hiroshima's ashes—of paper-and-wood and 150,000 people—bore witness, they were no longer a secret; neither would they be very hard to acquire. There was no defence against them. Einstein proposed disbanding nation states and forming a single government dedicated to peace. That was not naive exactly, writes William Langewiesche, an American journalist, rather the scientists were saying: "If you knew what we know about these devices, the practice of war must stop."

The Atomic Bazaar: The Rise of the Nuclear Poor
By William Langewiesche

Farrar, Straus and Giroux; 192 pages; $22.
To be published in Britain by Allen Lane in June

Buy it at
Amazon.com
Amazon.co.uk

By contrast, the fact that there has been no second nuclear war in the intervening 60 years seems a modest success. Moreover, the principle on which this success was built—restricting nuclear arms to a small group of countries which, directly or through allies, could mutually assure one another's destruction—is failing fast.

The 1970 Nuclear Non-proliferation Treaty (NPT), which attempted to restrict ownership of nuclear arms to what are now permanent members of the UN Security Council, has slowed, not stopped, their spread. The second wave of nuclear-armed powers—Israel, India and Pakistan—were not signatories to the pact. The third, North Korea and, no doubt, Iran, have flouted it. Mr Langewiesche says that, in all, 20 countries could soon develop nuclear weapons; this is a lower estimate than some experts have put forward.

Mr Langewiesche's message is the same as Einstein's: proliferation is inevitable. Nakedly discriminatory, the NPT was at best a short-term fix. That countries would circumvent it was obvious—especially those on whom a nuclear bomb confers otherwise unwarranted power. Alas, in a fast-globalising world, it is already impossible for governments to interdict the flow of nuclear goods and expertise.

Take A.Q. Khan, the megalomaniac Pakistani scientist who built his country's bomb, then hawked its secrets to Iran, North Korea and Libya. He could not have done so without help from dozens of European and South African companies. Indeed, they competed for his business. And for well over a decade, Mr Langewiesche argues, this happened with the complicity of successive Pakistani governments, Even after Mr Khan was removed from his government-owned laboratory—in 2001, to be President Pervez Musharraf's scientific adviser—he continued flogging nuclear know-how to North Korea. The irony is monstrous: just as America was preparing to invade Iraq to end its fictitious nuclear programme, America's ally in the war on terror, Pakistan, was quietly helping the North Koreans with their nuclear arms.

"The Atomic Bazaar" is an excellent introduction to this most discomfiting topic. It is remarkably comprehensive for a short book, especially given its pacy narrative. Through detailed reporting—from closed nuclear cities in the southern Urals to smuggler trails in Kurdistan—the author corrects many popular misunderstandings about the nuclear business. For example, he describes the terrifying messiness at Russian nuclear-fuel stores, including one where staff use holes in the perimeter fence as a private entrance. Even so, he says, it would still be extremely difficult for terrorists to obtain weapons-grade nuclear fuel in Russia—certainly more difficult than many scare-stories in the Western press have suggested. Citing official records, Mr Langewiesche says that criminal markets have never produced sufficient weapons-grade fuel to make a bomb.

Nonetheless, it seems likely that sooner or later terrorists will get their hands on enough high-enriched uranium for this task. About 100lb (45kg) of the stuff and three or four technicians would suffice, Mr

Langewiesche estimates—and an expert bombmaker could manage with much less. A nuclear strike by an unstable regime might precede this: Pakistan has already come close. It is paltry consolation that such a strike, taking out a city or two, would not cause the devastation of a nuclear war between superpowers.

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By William Langewiesche.
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History of algebra

An equation for eternity

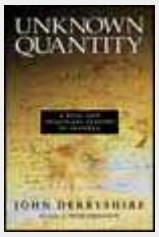
May 10th 2007
From The Economist print edition

THE roots of algebra, as John Derbyshire tells us, go back to the ancient world: the Babylonians left cuneiform tablets showing simple algebraic problems. Its actual birth is usually credited to Diophantus of Alexandria, who wrote "Arithmetica" in Greek during the third century. Progress was slow. Negative numbers, or even the number zero, had not yet been invented, and the notation was cumbersome (try doing multiplication with Roman numerals).

Medieval Islamic scholars such as Muhammad al-Khwarizmi and Omar Khayyam also worked on algebraic problems (and gave us words such as "algorithm" and indeed "algebra" itself). But it is in 16th-century Italy that the story gets exciting. Italian mathematicians engaged in bitter feuds, challenging each other to solve ever more complicated equations. The crucial step came in a book by a physician called Girolamo Cardano which presented formulas for both cubic and quartic equations.

At this point, the future of algebra looked rosy. In the 17th century René Descartes did everyone a favour by introducing modern algebraic notation, including the use of the letter x for unknowns (some say this was the choice of a printer who was running low on y's and z's).

Unknown Quantity: A Real and Imaginary History of Algebra
By John Derbyshire



Joseph Henry Press; 374 pages; $27.95.
Atlantic Books; £22

Buy it at
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Amazon.co.uk

But the subject had actually stalled. Mathematicians across Europe worked feverishly on quintic equations without success. It was only in the 19th century that Niels Henrik Abel discovered why, by showing that it is an impossible problem: there is no general formula that solves every quintic equation. What led to this breakthrough? In part, it was that mathematicians began to ask different questions. After centuries spent working on individual equations, they began to concentrate more on the patterns and symmetries to be found in different types of equations and their solutions.

Specific problems were replaced by general theories, with spectacular success. As the 19th century went on, the scope of algebra also expanded, as new algebraic objects were studied: not just numbers, but matrices (arrays of numbers), and new inventions such as groups, rings and fields.

Mr Derbyshire, whose book has just been published in Britain after appearing in America last year, gives an intriguing account of these developments, and of the mathematicians involved, such as George Boole, who "married algebra to logic" by inventing algebraic ways to express logical arguments: he led an almost saintly life, but died after his wife treated him for a chill by dousing him in buckets of icy water. The most tragic and romantic figure is the French mathematician, Evariste Galois, who died aged 20 in a pistol duel. He became famous a decade after his death, when his work on the algebraic structure of solutions was at last published.

In earlier centuries, mathematics had been a pursuit of amateurs. But it was now a matter for professionals, and increasingly difficult for anybody else to understand. Indeed, in 1870 a Norwegian mathematician called Sophus Lie became a media sensation after being arrested outside Paris: found with a backpack filled with indecipherable mathematical notes, he was thought to be a spy.

At times, even mathematicians have been suspicious of the "abstractions of abstractions of abstractions" of modern algebra. But, as Mr Derbyshire shows, algebra today is an essential part of the wider mathematical landscape, with a huge range of applications from encrypting communications to the construction of computer chips. His book is a demanding read, with its fair share of mathematical diagrams and equations, but the fascination of the subject does come across.

Unknown Quantity: A Real and Imaginary History of Algebra.

By John Derbyshire.
Joseph Henry Press; 374 pages; $27.95.
Atlantic Books; £22

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Swimming pools

At the deep end

May 10th 2007
From The Economist print edition

FROM cleanliness to sociability to athleticism, swimming baths are a symbol of life in America. Jeff Wiltse unpicks a story that begins in an age when the main reason for public pools was to let poor people get clean. In the days before chlorination that created problems: a swimming pool in New York's Central Park would attract “all sorts of undesirable people”, said the parks commissioner. If it was “used by all classes” said the *New York Times* in 1910, “it will become foul in a very short time”.

Public swimming pools soon became a touchstone of municipal social reform. But two other kinds of prejudice took over. The first was against the mixing of lightly clad men and women, which could encourage lewdness and promiscuity. That gradually eroded. By the mid-1930s, “bathing costumes” designed to conceal curves and bulges were giving way to “swimsuits” designed for practicality or even, excitingly, to showcase the body.

But as sexual taboos were breaking down, another set was growing, conflating prudishness, paranoia and straight racism. The book starts with a poignant story from 1951 of a victorious children's baseball team that wanted to celebrate by swimming at a municipal pool in Youngstown, Ohio. But one team member, Al Bright, was black. Initially the pool attendants denied him admittance. After many protests, the supervisor relented. The “negro” was allowed to enter the pool so long as all other swimmers left the water, and he sat on a rubber raft. As his teammates looked on, a life-guard pushed him once round the pool, reminding him, “whatever you do, don't touch the water.”

Racial integration came slowly but municipalities had lost their appetite for pool-building. Washington, DC, and New York City built 19 pools between them during the 1930s, but none at all between 1945 and 1960. The middle classes were getting their own pools in their backyards and attendance at public baths was falling. Why spend money on a service that only a few poor people used?

The eruption of America's inner cities in the years between 1964 and 1968 gave a compelling answer to that. Most of the 329 “black riots” of the time took place during the hot steamy nights of high summer. One of the most famous, in Chicago, started after teenagers were stopped from bathing in a fire hydrant they had opened. In the three days of rioting that followed, three people were killed and 300 arrested. The federal government splurged money on pool-building: New York City alone built 30 pools in the two years after 1966, and 84 by 1971.

It was a short-lived renaissance. Many northern cities ran out of money; pool managers faced new problems, including violence and vandalism. Americans turned to private pools, building 3m since 1970. A pity, in Mr Wiltse's nostalgic view. For all the pools' unfulfilled promise as social and ethnic levellers, there was nothing like a family swimming outing to leave a vivid childhood memory.

Contested Waters: A Social History of Swimming Pools in America.
By Jeff Wiltse.
University of North Carolina Press; 276 pages; $29.95 and £18.50

Contested Waters: A Social History of Swimming Pools in America
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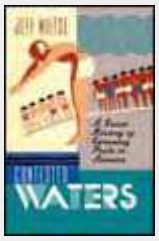

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New drama

A tragedy of our times

May 10th 2007
From The Economist print edition

A play that sets out to tell the story of the siege of Fallujah

FEW incidents in the war in Iraq have appeared as sinister as the siege of Fallujah in 2004. News agencies were not allowed to enter the city. Reports of atrocities—unconfirmed, fragmented but horrific—filtered out. Dozens of articles of the Geneva Convention were allegedly breached during the American bid to "re-establish control and pacify" this Sunni stronghold in central Iraq.

Eyewitness testimonies from the siege, delivered by actors, are the cornerstone of a new play written and directed by Jonathan Holmes. Called "Fallujah", it is being performed this month in a vast, converted brewery in London's East End. The play splices together the verbatim reports of Iraqi doctors, insurgents and civilians, all of whom experienced the siege at first hand, and offsets them with the speeches of American soldiers and high-ranking officials.

Mr Holmes is not attempting to be objective but to address what he sees as "the two principal atrocities of Fallujah". The first, which cannot be undone, is the behaviour of American troops. The second, he says, is the failure of the West to condemn that behaviour. "There remains only the opportunity to publicise the disgrace, and to condemn it noisily."

An impressive roster of collaborators has joined him in the task. Lucy and Jorge Orta, two contemporary artists, have created the set; Nitin Sawhney, a musician, provides a near-constant claustrophobic soundscape; and several talented actors, led by Harriet Walter and Imogen Stubbs, recount the ordeals of the besieged.

Medical supply crates, sandbags and hospital beds lie scattered around the industrial interior of the brewery. Multi-coloured body suits with fixed, open mouths scream out from walls and hang from the ceiling. These stylised corpses each bear a different inscription. "Force is the weapon of the weak," reads one. Television screens insist on the authenticity of everything you are about to see and hear.

The audience shuffles about this landscape while the action takes place around them. Soldiers push their way through, swaggering and malevolent; a roving stage light suddenly picks out two women in the audience as Iraqi aid workers. They weave gracefully through the crowd, telling their story, placing a hand gently on someone's shoulder.

The unnatural staging and Brechtian "breaking of the fourth wall" between actors and audience implicate the audience in the unfolding events. Yet the accounts of injustice, though truly upsetting, are monotone, and the message (anti-war, anti-American) lacks any shade of nuance. And the play's contrivances have an alienating effect. Any link to the everyday has been airbrushed out: death is reported in a highly stylised fashion. Sometimes the play, with its disdain for characterisation and its endless catalogue of horrors, seems to be struggling under the weight of its own self-importance. Even with these faults, however, "Fallujah" can still be applauded for casting light on a shameful chapter in a disastrous war.

"Fallujah" is at The Old Truman Brewery, Brick Lane, London until June 2nd.

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Mstislav Rostropovich

May 10th 2007
From The Economist print edition

“Slava” Rostropovich, the world's greatest cellist, died on April 27th, aged 80

Lebrecht

MUSIC, under totalitarianism, was one of the great escapes. The most vicious secret policeman could not wholly curb the human spirit once it moved into the world of sounds. “Slava” Rostropovich (the diminutive of his Christian name means “glory” in Russian) used to the utmost the freedom that music gave him inside the Soviet Union. When forced to move abroad, he became the ambassador of free Russian culture to the world, doing in music what Alexander Solzhenitsyn did, more gloomily, in words.

He was present at the two defining moments of the collapse of communism, the fall of the Berlin Wall in November 1989 (when he played Bach suites all night by a breach between the concrete blocks), and the attempted hardline putsch in Moscow in August 1991. On that occasion he talked his way into the Soviet Union without a visa to stand, rifle gingerly in hand, with Boris Yeltsin in the besieged Russian parliament. Its defenders claimed his presence stopped the putschists storming the building. He would have been happy to die there, he said, on the “most important, dangerous and emotional day of my life”.

In the 17 years before that, apart from one visit with the National Symphony Orchestra of Washington, DC, he had not set foot in his own country. His defiance began when his two greatest teachers, Sergei Prokofiev and, chiefly, Dmitri Shostakovich, fell out of official favour. A cannier Soviet citizen might have dumped or denounced them, but Mr Rostropovich refused to do so. For a time, his glittering musical talents protected him. Other artists and intellectuals, however, were silent in his defence, and his friendship with Mr Solzhenitsyn was the last straw. In 1969 the writer, persecuted by the authorities, had nowhere to live; Mr Rostropovich invited him to stay. Then he, his wife Galina and some other brave souls wrote an open letter to the Soviet leader, Leonid Brezhnev, protesting at the regime's abuse of cultural freedom.

After that, Mr Rostropovich was on the blacklist. He became a prisoner in his own country, ignored by the state-controlled media, unable to play in public or make recordings. He was stripped of his musical awards, and his name was even removed from the many scores that had been dedicated to him. Though Russia was “in my heart—in my mind”, and ever would be, in 1974 he asked to be allowed to leave. His citizenship was revoked four years later.

He had been adored in the West since his first visit in 1956, frequently performing at the Aldeburgh festival and becoming close friends with its towering talent, Benjamin Britten. The two communicated in broken German, which they called “Aldeburgh Deutsch”; Britten wrote cello suites, a sonata and a symphony for him. In exile Mr Rostropovich learnt English, or at least developed an idiosyncratic version of it. But he lost none of his Russianness, greeting friends with a massive bear hug. After Britten died, Mr Rostropovich would hug his tomb when visiting Aldeburgh.

Hearing his own voice

Off-duty, he was an assiduous socialite. In London, Washington or Paris he was glad to mix with the appreciative, anything in stockings and (especially, jealous critics said) the famous. But his main energies went to music. He would rise at five, study scores for three hours, relax after a concert with a four-hour practice session. Such discipline had been inculcated from childhood, when he had studied the cello with his father at their home in Baku, in Soviet Azerbaijan. At 13, he would hang flatbread from the ceiling-lamp so that he could snatch swaying mouthfuls as he played. And when, as a young man, he thought he might be allowed to premiere Shostakovich's first cello concerto, he practised for ten hours a day.

He played the piano too—his first instrument, on which he had been coached by his mother from the age of four—and was accomplished enough to accompany his wife, a soprano, in her recitals. He conducted, though his sessions had a mixed press: sometimes clumsy and lacking in fireworks, sometimes inspirational, with an unmatched ability to communicate his profound understanding of the music to the orchestra. When contemporary composers played through their pieces for him, he said, he would watch their faces, and try to pass their feelings on.

As a performer, he combined extraordinary technical virtuosity with a sublimely confident and passionate interpretation of the music's melodic line. His sound was as huge as his humanity. When his interpretations departed a bit from the printed score, few complained: the music was enriched, not merely transmitted, through his playing. He had fallen in love with the cello in the first place, he explained, because it seemed to be his own voice. But the music he heard in his head as he played was “symphonic”, far surpassing even the sound of the instrument he embraced.

Perhaps his most memorable performance was of Dvorak's cello concerto, in London in September 1968, just after the Soviet-led invasion of Czechoslovakia that crushed the Prague Spring. Protesters outside the Royal Albert Hall were cross that a “Soviet” concert was going ahead. But Mr Rostropovich wept for his country's crimes and its captives' suffering, and so did those who heard him.

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Overview

May 10th 2007
From The Economist print edition

American companies, excluding farms, added just 88,000 workers to their payrolls in April, below this year's average of 129,000 a month. Unemployment edged up to 4.5% from 4.4% in March. The health-care industry added jobs; manufacturing shed them.

The **Federal Reserve** kept its key interest rate on hold at 5.25%. In its statement, it gave no hint of a future cut. Inflationary pressures should ease, it said again. But the risk that they might not remains its "predominant policy concern".

Germany's boom continues apace. Industrial production accelerated, growing by 7.7% in the year to March. New orders are pouring into its factories, increasing by 2.4% in March on top of a 4.3% jump the month before. The country's unadjusted trade surplus widened to €18.4 billion ($24.4 billion) in March, 30.5% higher than in March 2006.

Indonesia's central bank cut its benchmark interest rate by a quarter point to 8.75% as inflation slowed towards its target rate of 6%. Rates have fallen by four percentage points since their peak in the spring of 2006.

Inflation eased a little in **Turkey**, but remains in double digits, rising by 10.7% in the year to April.

Our monthly poll (see article) suggests **forecasters** have become less sanguine about the American economy this year, expecting it to grow by 2.1% rather than 2.3%, but more optimistic about the euro area and Japan.

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Output, prices and jobs

May 10th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+2.1 Q1	+1.3	+2.1	+2.7	+2.3 Mar	+2.8 Mar	+3.4	+2.4	4.4 Mar
Japan	+2.3 Q4	+5.5	+2.4	+2.2	+1.6 Mar	–0.1 Mar	–0.2	nil	4.0 Mar
China	+11.1 Q1	na	+9.8	+9.7	+17.6 Mar	+3.3 Mar	+0.8	+2.7	9.8 2006
Britain	+2.8 Q1	+2.6	+2.7	+2.5	–0.2 Mar	+3.1 Mar**	+1.8	+2.3	5.5 Feb††
Canada	+2.3 Q4	+1.4	+2.3	+2.7	–1.2 Feb	+2.3 Mar	+2.2	+1.9	6.1 Mar
Euro area	+3.3 Q4	+3.6	+2.4	+2.1	+4.1 Feb	+1.8 Apr	+2.4	+1.9	7.2 Mar
Austria	+3.3 Q4	+3.3	+2.8	+2.6	+8.6 Feb	+1.8 Mar	+1.0	+1.6	4.4 Apr
Belgium	+2.8 Q1	+2.4	+2.4	+2.2	+3.4 Feb	+1.8 Apr	+2.0	+1.8	11.2 Mar‡‡
France	+2.5 Q4	+2.9	+2.1	+2.1	+1.1 Mar	+1.2 Mar	+1.5	+1.4	8.3 Mar
Germany	+3.7 Q4	+3.5	+2.3	+2.1	+7.7 Mar	+1.9 Apr	+2.0	+1.8	9.2 Apr
Greece	+4.3 Q4	na	+3.3§	+3.2§	+2.3 Feb	+2.5 Apr	+3.3	+2.9§	8.6 Jan
Italy	+2.8 Q4	+4.7	+1.9	+1.6	+1.6 Mar	+1.5 Apr	+2.2	+1.9	6.5 Q4
Netherlands	+2.7 Q4	+2.6	+2.6	+2.5	+5.8 Mar	+1.8 Apr	–11.4	+1.6	5.3 Mar††
Spain	+4.0 Q4	+4.8	+3.5	+2.8	+2.3 Mar	+2.5 Mar	+3.9	+2.6	8.6 Mar
Czech Republic	+5.8 Q4	+5.8	+5.1	+4.6	+15.4 Feb	+2.5 Apr	+2.8	+2.4	6.8 Apr
Denmark	+2.9 Q4	+1.5	+2.3	+2.3	+0.7 Feb	+1.7 Apr	+1.8	+1.9	3.9 Mar
Hungary	+3.2 Q4	+3.2	+2.3	+3.0	+10.7 Feb	+9.0 Mar	+2.3	+6.6	7.5 Mar††
Norway	+2.7 Q4	+2.0	+2.8§	+2.5§	–4.0 Mar	+1.1 Mar	+2.4	+1.6§	2.7 Mar††
Poland	+6.4 Q4	na	+5.4	+5.0	+11.3 Mar	+2.5 Mar	+0.4	+2.0	14.4 Mar‡‡
Russia	+7.9 Q1	na	+7.0	+6.3	+7.9 Mar	+7.8 Apr	+10.0	+7.3	7.2 Mar‡‡
Sweden	+4.7 Q4	+5.0	+3.8	+3.1	+9.0 Mar	+1.9 Apr	+1.5	+1.6	4.8 Mar‡‡
Switzerland	+2.2 Q4	+1.8	+2.1	+2.0	+8.9 Q4	+0.5 Apr	+1.1	+0.6	2.9 Apr‡‡
Turkey	+5.2 Q4	na	+4.3	+5.3	+2.6 Mar	+10.7 Apr	+8.8	+8.3	9.6 Q4‡‡
Australia	+2.8 Q4	+4.2	+3.0	+3.2	+3.7 Q4	+2.4 Q1	+3.0	+2.6	4.4 Apr
Hong Kong	+7.0 Q4	+5.3	+5.4	+5.1	–1.4 Q4	+2.4 Mar	+1.6	+2.5	4.3 Mar††
India	+8.6 Q4	na	+8.0	+7.8	+11.0 Feb	+6.7 Mar	+4.9	+5.0	7.6 2006
Indonesia	+6.1 Q4	na	+6.0	+5.9	–5.2 Feb	+6.3 Apr	+15.4	+6.5	10.3 2005
Malaysia	+5.7 Q4	na	+5.5	+5.7	–2.7 Mar	+1.5 Mar	+4.8	+2.5	3.0 Q4
Pakistan	+6.6 2006§§	na	+6.6§	+6.1§	+6.8 Sep	+7.7 Mar	+6.9	+7.1§	na
Singapore	+6.0 Q1	+7.2	+5.4	+5.4	–2.9 Mar	+0.7 Mar	+1.2	+1.4	2.9 Q1
South Korea	+4.0 Q1	+3.6	+4.4	+4.7	+3.1 Mar	+2.5 Apr	+2.0	+2.3	3.2 Mar
Taiwan	+4.0 Q4	na	+4.3	+4.6	+0.1 Mar	+0.7 Apr	+1.2	+1.4	3.9 Mar
Thailand	+4.2 Q4	+2.7	+4.3	+4.8	+4.0 Mar	+1.8 Apr	+6.0	+2.9	1.6 Jan
Argentina	+8.6 Q4	+7.4	+7.0	+4.8	+3.7 Mar	+8.9 Apr	+11.6	+9.8	9.7 Q1‡‡
Brazil	+3.8 Q4	+4.5	+3.3	+3.5	+3.9 Mar	+3.0 Mar	+5.3	+3.7	10.1 Mar‡‡
Chile	+4.3 Q4	+7.8	+5.1	+5.2	+5.2 Mar	+2.5 Apr	+3.8	+2.6	6.7 Mar††††
Colombia	+8.0 Q4	nil	+5.0	+4.5	+14.6 Feb	+6.3 Apr	+4.1	+4.2	12.0 Mar‡‡
Mexico	+4.3 Q4	+1.9	+3.5	+3.7	nil Feb	+4.0 Apr	+3.2	+3.8	4.0 Mar‡‡
Venezuela	+11.8 Q4	na	+6.2	+3.9	+6.7 Jan	+19.4 Apr	+11.4	+18.3	8.9 Q4‡‡
Egypt	+7.1 Q3	na	+6.5	+5.9	+10.5 2006	+12.8 Mar	+3.7	+9.9	9.0 Q4‡‡
Israel	+3.7 Q4	+8.0	+4.6	+4.3	+8.4 Feb	–0.9 Mar	+3.6	+1.4	7.7 Q4
Saudi Arabia	+3.4 2006§	na	+3.9§	+5.0§	na	+3.0 Feb	+1.6	+2.6§	na
South Africa	+6.1 Q4	+5.6	+4.4	+4.7	+7.1 Feb	+6.1 Mar	+3.4	+5.4	25.5 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+10.9 Q4	+8.2	+9.2§	+7.4§	+7.4 Mar	+5.5 Apr	+4.3	+4.3§	4.9 Mar
Finland	+5.3 Q4	+3.8	+2.7§	+2.5§	–0.1 Mar	+2.6 Mar	+0.9	+1.4§	7.2 Mar
Iceland	+2.5 Q4	+7.8	+1.3§	+2.7§	na	+5.3 Apr	+5.5	+5.0§	1.3 Mar‡‡
Ireland	+5.0 Q4	+0.1	+5.4§	+3.6§	+22.3 Feb	+5.1 Mar	+3.5	+3.4§	4.2 Mar
Latvia	+11.9 Q4	na	+9.2§	+7.5§	+2.0 Feb	+8.5 Mar	+6.5	+6.0§	5.8 Feb
Lithuania	+7.1 Q1	+6.1	+6.5§	+6.4§	na	+4.8 Apr	+3.4	+1.9§	6.2 Feb
Luxembourg	+5.0 Q4	+7.0	+4.6§	+4.9§	+0.4 Jan	+2.1 Mar	+3.0	+2.2§	4.6 Mar‡‡
New Zealand	+2.9 Q4	+5.0	+3.1§	+3.1§	–0.4 Q4	+2.5 Q1	+3.3	+2.2§	3.8 Q1
Peru	+7.4 Feb	na	+6.1	+5.5	+7.2 Feb	–0.1 Apr	+2.9	+1.4	9.5 Feb‡‡
Philippines	+6.5 Q4	+5.6	+5.6	+5.7	–10.3 Feb	+2.3 Apr	+7.1	+4.2	7.3 Q4‡‡
Portugal	+1.7 Q4	+1.9	+1.6§	+2.1§	+1.8 Mar	+2.3 Mar	+3.9	+2.2	8.2 Q4‡‡
Slovakia	+9.6 Q4	na	+8.0§	+5.6§	+12.5 Mar	+2.7 Mar	+4.5	+2.5	11.2 Feb
Slovenia	+5.5 Q4	na	+4.2§	+4.0§	+9.3 Feb	+2.6 Apr	+2.7	+2.7	8.3 Feb‡‡

*% change on previous quarter, annual rate. †*The Economist* poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.8% in Mar. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

May 10th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	May 1st	May 8th*	% change on one month	% change on one year
Dollar index				
All items	200.4	202.9	+0.8	+13.9
Food	157.9	155.9	–0.9	+13.5
Industrials				
All	255.4	263.5	+2.1	+14.2
Nfa†	154.3	157.9	–0.3	+3.2
Metals	310.6	321.2	+2.8	+17.6
Sterling index				
All items	152.0	154.6	–0.1	+6.6
Euro index				
All items	136.3	138.7	+0.2	+7.7
Gold				
$ per oz	673.85	686.05	+1.6	–1.5
West Texas Intermediate				
$ per barrel	64.41	62.21	+0.7	–11.8

*Provisional †Non-food agriculturals.

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The Economist poll of forecasters, May averages

May 10th 2007
From The Economist print edition

The Economist poll of forecasters, May averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2007	2008	2007	2008	2007	2008	2007	2008
Australia	2.7/3.4	2.2/4.4	3.0 (2.9)	3.2	2.6 (2.7)	2.5	–5.3 (–5.2)	–5.3 (–5.1)
Belgium	2.1/2.7	1.6/2.7	2.4 (2.3)	2.2	1.8	1.9	1.8 (2.7)	1.7 (2.5)
Britain	2.3/3.1	2.0/3.1	2.7 (2.6)	2.5	2.3 (2.1)	1.9	–3.0	–3.3 (–3.1)
Canada	1.7/2.9	2.4/3.0	2.3 (2.4)	2.7	1.9 (1.7)	2.2 (2.1)	1.1 (1.0)	0.9 (1.1)
France	1.6/2.4	1.7/2.4	2.1	2.1	1.4	1.8	–1.3	–1.2
Germany	1.3/2.7	1.4/2.9	2.3 (2.2)	2.1	1.8 (1.7)	1.5	4.9 (4.7)	4.9 (4.7)
Italy	1.2/2.4	1.2/2.2	1.9	1.6	1.9 (1.8)	2.0	–1.9	–2.0 (–1.9)
Japan	1.8/2.9	1.8/2.7	2.4 (2.3)	2.2 (2.3)	nil (0.1)	0.5	4.0 (4.1)	3.9 (4.0)
Netherlands	2.0/3.3	1.7/2.9	2.6	2.5 (2.4)	1.6 (1.4)	1.8	7.6 (8.3)	7.3 (8.2)
Spain	3.0/3.7	2.2/3.1	3.5 (3.4)	2.8	2.6 (2.5)	2.9	–8.8	–8.4
Sweden	3.4/4.2	2.6/3.6	3.8	3.1 (3.0)	1.6	1.9	6.6	6.2 (6.1)
Switzerland	1.7/2.5	1.8/2.3	2.1 (2.0)	2.0	0.6 (0.7)	1.2	15.9 (15.3)	15.3 (14.9)
United States	1.7/2.4	2.2/3.3	2.1 (2.3)	2.7	2.4 (2.1)	2.3	–6.1	–6.0
Euro area	2.2/2.7	1.7/2.4	2.4 (2.3)	2.1	1.9 (1.8)	2.0 (1.9)	–0.1	nil

Sources: ABN AMRO, BNP Paribas, Citigroup, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Scotiabank, UBS

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Trade, exchange rates, budget balances and interest rates

May 10th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ May 9th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	–825.2 Feb	–856.7 Q4	–6.1	–	–	–1.7	5.21	4.67
Japan	+84.0 Feb	+173.9 Feb	+4.0	120	111	–4.5	0.57	1.66
China	+200.9 Mar	+160.8 2005	+7.6	7.69	8.00	–1.5	2.95	3.58
Britain	–154.8 Feb	–80.1 Q4	–3.0	0.50	0.54	–2.6	5.71	5.06
Canada	+46.3 Feb	+21.4 Q4	+1.1	1.11	1.10	1.3	4.16	4.22
Euro area	–6.4 Feb	–5.1 Feb	–0.1	0.74	0.78	–1.0	4.05	na
Austria	+0.6 Feb	+10.3 Q4	+1.9	0.74	0.78	–0.9	4.05	4.25
Belgium	+18.3 Feb	+7.8 Dec	+1.8	0.74	0.78	0.4	4.10	4.27
France	–34.2 Mar	–30.5 Feb	–1.3	0.74	0.78	–2.7	4.05	4.24
Germany	+220.4 Mar	+165.0 Mar	+4.9	0.74	0.78	–0.3	4.05	4.20
Greece	–45.7 Feb	–31.5 Feb	–8.1‡	0.74	0.78	–2.2	4.05	4.39
Italy	–25.2 Feb	–47.1 Feb	–1.9	0.74	0.78	–2.6	4.05	4.41
Netherlands	+42.4 Feb	+59.7 Q4	+7.6	0.74	0.78	0.5	4.05	4.24
Spain	–115.9 Feb	–109.8 Jan	–8.8	0.74	0.78	1.4	4.05	4.26
Czech Republic	+2.6 Mar	–6.1 Q4	–3.3	20.8	22.1	–4.3	2.70	4.14
Denmark	+6.4 Mar	+5.5 Mar	+2.5	5.50	5.83	3.1	4.28	4.25
Hungary	–2.0 Mar	–6.5 Q4	–5.0	182	204	–6.7	7.80	6.50
Norway	+54.7 Mar	+56.1 Q4	+14.9‡	6.01	6.08	18.7	4.58	4.85
Poland	–5.3 Feb	–8.2 Feb	–2.5	2.77	3.00	–2.4	4.44	5.27
Russia	+134.1 Feb	+85.8 Q1	+6.0	25.8	27.0	5.5	10.50	6.18
Sweden	+20.1 Mar	+28.4 Q4	+6.6	6.80	7.29	2.2	3.27	4.04
Switzerland	+10.4 Mar	+106.1 Q4	+15.9	1.22	1.22	0.3	2.38	2.84
Turkey	–53.5 Mar	–32.1 Mar	–7.0	1.34	1.35	–2.7	19.29	18.59
Australia	–10.2 Mar	–40.9 Q4	–5.3	1.21	1.29	1.3	6.38	5.84
Hong Kong	–18.2 Mar	+20.2 Q4	+9.4	7.82	7.75	2.6	4.36	4.09
India	–58.2 Mar	–10.0 Q4	–2.3	40.9	44.9	–3.5	7.66	8.36
Indonesia	+41.1 Mar	+9.6 Q4	+1.2	8,815	8,722	–1.2	8.71	6.24§
Malaysia	+28.6 Mar	+25.6 Q4	+12.9	3.40	3.58	–3.7	3.62	5.22§
Pakistan	–13.6 Apr	–6.5 Q4	–5.4‡	60.6	60.1	–3.9	9.83	6.62§
Singapore	+34.4 Mar	+36.3 Q4	+23.5	1.51	1.56	0.3	2.59	2.71
South Korea	+17.2 Apr	+5.7 Mar	+0.3	925	929	0.6	5.00	5.10
Taiwan	+13.0 Apr	+25.2 Q4	+5.9	33.3	31.3	–2.3	1.86	2.17
Thailand	+6.6 Mar	+8.1 Mar	+1.9	34.6	37.6	–1.4	4.12	3.63
Argentina	+11.7 Mar	+8.1 Q4	+2.4	3.08	3.04	1.5	9.56	na
Brazil	+46.7 Apr	+13.6 Mar	+0.7	2.02	2.05	–2.4	12.43	6.16§
Chile	+24.0 Apr	+5.3 Q4	+0.8	519	513	4.8	4.92	5.22§
Colombia	–0.9 Feb	–2.9 Q4	–2.3	2,046	2,331	–0.9	7.62	5.97§
Mexico	–9.2 Mar	–1.5 Q4	–1.2	10.8	10.8	–0.2	7.24	7.65
Venezuela	+33.0 Q4	+27.2 Q4	+9.3	3,044	2,552	–4.9	10.00	6.55§
Egypt	–12.6 Q4	+2.7 Q4	+1.3	5.69	5.76	–7.6	6.96	5.30§
Israel	–7.8 Mar	+6.8 Q4	+3.4	3.96	4.43	–2.0	3.81	4.39
Saudi Arabia	+148.5 2006	+95.4 2006	+18.3‡	3.75	3.75	13.7	5.05	na
South Africa	–9.5 Mar	–16.3 Q4	–5.9	6.89	6.04	0.5	9.30	7.56
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	–3.6 Feb	–2.7 Feb	–13.5‡	11.5	12.2	1.6	4.38	na
Finland	+11.6 Feb	+12.7 Feb	+5.7†	0.74	0.78	2.3	4.02	4.24
Iceland	–1.8 Apr	–4.4 Q4	–20.1‡	64.0	70.1	1.8	13.96	na
Ireland	+33.6 Feb	–7.2 Q4	–4.3‡	0.74	0.78	1.0	4.05	4.22
Latvia	–5.3 Feb	–4.8 Feb	–23.1‡	0.51	0.54	nil	8.75	na
Lithuania	–5.7 Feb	–3.5 Feb	–10.3‡	2.55	2.70	–0.5	4.82	na
Luxembourg	–5.3 Feb	+4.4 Q4	na	0.74	0.78	–0.8	4.05	na
New Zealand	–3.8 Mar	+6.2 Q4	–10.2‡	1.36	1.60	3.2	6.95	6.07
Peru	+8.7 Feb	+2.5 Q4	+1.0	3.16	3.28	0.3	4.50	na
Philippines	–4.0 Feb	+5.0 Dec	+3.2	47.3	51.5	–0.7	5.69	na
Portugal	–23.1 Feb	–17.8 Feb	–7.7‡	0.74	0.78	–3.3	4.05	4.33
Slovakia	–2.4 Feb	–3.9 Jan	–4.3‡	24.8	29.3	–3.0	3.76	4.19
Slovenia	–2.1 Feb	–1.4 Feb	–2.3‡	0.74	0.78	–1.2	na	na

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

May 10th 2007
From The Economist print edition

Markets

	Index May 9th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,362.9	+1.1	+7.2	+7.2
United States (S&P 500)	1,512.6	+1.1	+6.6	+6.6
United States (NAScomp)	2,576.3	+0.7	+6.7	+6.7
Japan (Nikkei 225)	17,748.1	+2.0	+3.0	+2.6
Japan (Topix)	1,745.0	+2.4	+3.8	+3.3
China (SSEA)	4,212.0	+4.4	+49.6	+51.8
China (SSEB, $ terms)	270.0	+16.8	+104.5	+107.5
Britain (FTSE 100)	6,549.6	+1.0	+5.3	+7.4
Canada (S&P TSX)	13,895.2	+2.3	+7.6	+13.3
Euro area (FTSE Euro 100)	1,386.1	+0.3	+8.4	+11.4
Euro area (DJ STOXX 50)	4,425.0	+0.2	+7.4	+10.4
Austria (ATX)	4,714.1	–0.1	+5.6	+8.5
Belgium (Bel 20)	4,715.4	+0.8	+7.4	+10.4
France (CAC 40)	6,051.6	+1.0	+9.2	+12.2
Germany (DAX)*	7,476.0	+0.3	+13.3	+16.5
Greece (Athex Comp)	4,743.9	–0.7	+8.0	+10.9
Italy (S&P/MIB)	43,855.0	nil	+5.8	+8.8
Netherlands (AEX)	534.3	+0.4	+7.9	+10.9
Spain (Madrid SE)	1,619.5	+1.2	+4.2	+7.0
Czech Republic (PX)	1,831.6	+0.9	+15.3	+15.4
Denmark (OMXCB)	470.8	+0.1	+11.0	+14.1
Hungary (BUX)	25,842.9	+1.0	+4.0	+8.7
Norway (OSEAX)	543.6	–0.6	+8.2	+12.2
Poland (WIG)	60,121.4	–0.3	+19.3	+25.2
Russia (RTS, $ terms)	1,913.6	+0.1	–2.5	–0.4
Sweden (Aff.Gen)	397.2	–1.8	+8.7	+9.4
Switzerland (SMI)	9,427.7	–0.2	+7.3	+7.7
Turkey (ISE)	45,102.7	+1.9	+15.3	+22.2
Australia (All Ord.)	6,338.0	+1.8	+12.3	+17.8
Hong Kong (Hang Seng)	20,844.8	+2.2	+4.4	+3.8
India (BSE)	13,781.5	–0.7	nil	+8.1
Indonesia (JSX)	2,038.0	+1.5	+12.9	+15.2
Malaysia (KLSE)	1,350.8	+2.2	+23.2	+27.8
Pakistan (KSE)	12,393.3	–0.3	+23.4	+24.0
Singapore (STI)	3,452.7	+1.0	+15.6	+17.2
South Korea (KOSPI)	1,593.4	+2.6	+11.1	+11.7
Taiwan (TWI)	8,052.7	+1.9	+2.9	+0.8
Thailand (SET)	706.3	+0.1	+3.9	+8.5
Argentina (MERV)	2,155.3	–0.1	+3.1	+2.8
Brazil (BVSP)	51,300.0	+3.7	+15.4	+21.6
Chile (IGPA)	14,500.4	+1.4	+17.2	+20.2
Colombia (IGBC)	10,485.9	–0.6	–6.1	+2.8
Mexico (IPC)	29,992.8	+2.5	+13.4	+13.4
Venezuela (IBC)	44,201.8	+0.2	–15.4	–7.1
Egypt (Hermes)	68,061.4	+2.9	+11.0	+11.4
Israel (TA-100)	1,087.4	+0.3	+18.0	+25.5
Saudi Arabia (Tadawul)	7,394.5	–1.8	–6.8	–6.8
South Africa (JSE AS)	28,354.4	+0.1	+13.8	+16.4
Europe (FTSEurofirst 300)	1,585.0	+0.5	+6.8	+9.8
World, dev'd (MSCI)	1,602.5	+1.0	+8.0	+8.0
Emerging markets (MSCI)	998.8	+2.4	+9.4	+9.4
World, all (MSCI)	397.7	+1.2	+8.1	+8.1
World bonds (Citigroup)	669.4	nil	+1.7	+1.7
EMBI+ (JPMorgan)	421.7	+0.1	+3.5	+3.5
Hedge funds (HFRX)	1,334.2	+0.4	+4.6	+4.6
Volatility, US (VIX)	12.9	13.1	11.6	(levels)
CDSs, Eur (iTRAXX)†	18.7	–0.3	–12.6	–10.2
CDSs, N Am (CDX)†	32.1	+1.6	+9.4	+9.4
Carbon trading (EU ETS) €	0.46	–22.0	–92.7	–92.5

*Total return index. †Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

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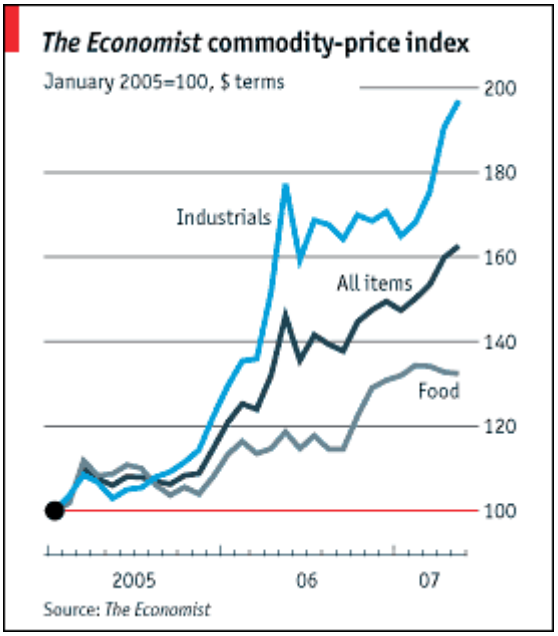
The Economist commodity-price index

May 10th 2007
From The Economist print edition

Commodity prices reached a new high this week, according to *The Economist*'s all-items index, driven by strong demand for industrial commodities. Our metals index has gained 20% so far this year, with nickel and lead prices hitting records and copper prices rising by more than half since early February. Food prices, however, have stalled. The market for maize has slackened as American farmers, tempted by rising demand for ethanol, have planted the biggest crop since 1944. Sugar prices have fallen by almost half in a year. Cocoa, though, is at a four-year high following drought in West Africa. A shortage of robusta beans, used in instant coffee, has pushed prices to a record in Vietnam.



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